ACCEPTANCES
TRADE AND BANKERS'

PARK MATHEWSON

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BY

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WITH AN INTRODUCTION BY

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INTER FOLIA FRUCTUS

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PREFACE

The endeavor in this volume is to offer simple and practical explanation of acceptance principles and procedure, as demonstrated in actual use by great numbers of bankers and business concerns in the United States and foreign countries. Research has not been spared in its preparation, and it embodies the results of several nation-wide co-operative investigations. There will be found herein a full discussion of the practical scope and limits of bankers' and trade acceptances and, from a consensus of opinion, their most approved methods of use. It is hoped that the basic principles discussed and the plans and details of procedure described may enlighten the student, assist the banker, and enable the American manufacturer, jobber, or merchant to understand and apply the acceptance in its best form.

In banking houses it has been found that the most successful method of handling a specialty, such as bankers' or trade acceptances, is by delegating such an activity to one or more men who, through study and experience, become experts in its efficient management. It is probable, however, that in the case of acceptances, all officials of the bank who may be called upon to discuss the matter with customers or financial men, in its broad aspects or in details, can receive benefit from studying the practical information contained in a volume which covers all aspects of the subject. Although bankers, bank officials, and heads of departments in the banks are especially well posted on financial technicalities, yet progressive bankers find it necessary to study every day more closely the problems

and experiences of their customers. The discussion of principles, as well as the consensus of experience of hundreds of actual users, offered in this book will be of exceptional value to any individual in a bank whose duties include the handling of acceptances with customers.

Any business firm studying the subject of acceptances will find in this volume data of the highest importance to the general manager, who must pass on it as a "policy," the treasurer, the controller, and the credit managers who must put the acceptance policy in force. The book will be of equal value to the sales manager, to the publicity manager, and to every salesman, who will hear more and more of the subject and who should be able to discuss it intelligently.

Although plans were devised by the Federal Reserve Board several years ago to make easy and practical the acceptance methods in certain classes of credit transactions, in order to save the American business world time and money, its adoption was not immediate, except by those who are the natural leaders in improved business methods. "Acceptances," "bills of exchange," "trade bills," or "bills," as they are variously called, have been for years as generally well known, used, and liked in Europe as they have been neglected in America since the Civil War. Yet that argument alone has had small effect with the average American firm, notwithstanding the fact that more labor saving devices and mechanical methods have been invented, improved, and adopted by American business men than by all the European nations combined. The business mind and vision of many of our best bankers and business men, however, seem to have expanded with remarkable rapidity under new conditions developed by the World War, in a way that gives promise of a great future for our business organizations. This book probably will not interest the man who is too old, or too obtuse, to learn new things, but

it should be of value to those who seek to understand new methods and who do not hesitate to adapt them to their needs.

Can America, although the richest country in the world, afford to overlook any improved method of handling its annual production of billions of dollars' worth of agricultural and manufactured commodities, most of which, at one time or another, are carried on credit? Through careful study by the best class of American bankers, business men, and students of finance, it may be expected that all possible benefit will be derived from the application of acceptances to liquefying and improving our credits. Thus will America be put in the running for the great trade prizes to be won by the nation which uses the swiftest and surest financial methods.

It is the sincere wish of the author that this volume may contribute to the proper understanding and practical use of acceptances, wherever they can serve a useful purpose.

PARK MATHEWSON.

CONTENTS

ILLUSTRATIONS

INTRODUCTION

It was the business men, as well as the bankers, of the country whose demand for scientific banking legislation brought forth the Federal Reserve Act—a great business, as well as a great banking, law.

Here we find for the first time in American banking that true commercial paper is given its rightful place; that, except United States Government securities, it becomes the most desirable investment for the banker, forming as it does a secondary reserve, the most liquid in his portfolio. It is through this paper indeed that the banker can make available for his own safety and for the service of his clients the resources of the whole Federal Reserve System, not only those of his own reserve district but of all the other reserve districts as well.

The banker naturally wants all the business paper he buys, so far as possible, to meet the requirements of the law, which will make the commercial paper he buys unquestionably available as a secondary reserve. But this has laid on business men, in turn, a condition that they so conduct their affairs that the paper they offer the bank shall conform with the requirements of the Federal Reserve law as interpreted by the Federal Reserve Board governing paper that can be rediscounted or bought by the Federal Reserve Banks.

The Federal Reserve Board soon after being organized, in its work of interpreting the Act which created the Board, indicated a preference for commercial paper that would *show on its face* that it arose from a current merchandise transaction, a true bill of exchange; and this

class of paper the Board styled, in order to make it distinctive, the "trade acceptance."

The trade acceptance lies close to the very heart of the Federal Reserve System, for without it or related business paper the Federal Reserve System cannot properly function for the welfare of business; hence bankers and business men should thoroughly understand this ancient instrument which but recently has entered into American commerce.

It is well that this volume, treating of the acceptance in its many aspects, has been offered to the public by one who has studied profoundly the needs of business in its manifold relations, and particularly in its relation to banking, always with a view to finding a way to meet the need. The happy combination of the theory of the trade acceptance with practice under the acceptance system has been in these pages particularly well worked out, and the book makes an addition of inestimable value to the list of business books. It were highly advantageous if bankers as well as business men should catch the true spirit of the acceptance as presented in these illuminating pages of description and definition.

WILLIAM WALKER ORR

PART I

ACCEPTANCE THEORY, PROCEDURE, AND PRACTICE

CHAPTER I

THE THEORY OF ACCEPTANCE PAYMENT

Acceptances and the Credit System.—Payment by acceptance is as old and as broad as trade on the seven seas of the world. Ever since pure barter of one article for another was superseded by the modern system of buying and selling with credit given and taken in the business transaction, the method of paying by "acceptance" has been in vogue. The giving and taking of credit is one of the essentials of payment by acceptance, and it thus has no place in the buying and selling of goods for cash. A transaction on credit must be paid in the future, and the acceptance is one of the oldest and most efficient methods of definitely providing for a means and time of such payment.

As credit consists mainly of two elements, *time* and *confidence,* the trade acceptance, although it may be as liberal as seems desirable in regard to the time element, yet maintains the element of confidence in the highest degree by a fair "give-and-take" arrangement in which the seller signs a paper (trade acceptance) specifically agreeing to give certain terms to which the buyer has agreed as satisfactory at time of purchase. The buyer, simply as a fair return for the agreement and the valuable goods which the seller has delivered to him on his credit, countersigns or "accepts" the paper, thus signifying that the terms are satisfactory, that it is his desire and intention to live up to his end of the bargain he made when ordering the goods, and that he, equally with the seller, is willing to evidence

his good faith by also putting his name on the acceptance. When the instrument is accepted by a banker (bankers' acceptance), his indorsement usually tends to enhance the element of *confidence* in the credit transaction.

Early Use of the Trade Acceptance.—The operation of acceptance credit and payment is graphically illustrated by the early methods and necessities that brought them into being in the interchange of goods, both locally and between different countries. Although this method of payment dates back to early European trade, let us draw our illustration of its use from the early days of the American Colonies.

Great Britain might ship a cargo of needed goods to the Colonies. On arrival the goods would be presented to the local merchants or trading companies, together with an itemized bill, which bill would be "accepted" by the American purchasers for payment at a certain date in the future, usually in England, the country whence the goods came. Often tobacco, skins, or other American goods would be conveyed on the return voyage of the same ship in which the goods had come to America and in which the "acceptance" for the original cargo was returned to England. These goods were not sent for barter or in exchange; they were consigned or were sold outright on their arrival in England, either for cash or for an acceptance by the English buyers, and the proceeds were used to liquidate the acceptance of the colonial merchants given for the original shipment of goods.

Hence it is apparent that, even in the early days, acceptances were used almost as a form of currency which enabled buyers and sellers to do business without the actual transfer of gold. Furthermore, the sale and purchase of goods on acceptance were not confined to international trade, or even to interstate trade, but were resorted to locally. As banks or banking houses in those days sel-

dom intervened in such transactions, these early credit papers were the same as the present-day foreign or domestic "bill of exchange" or "trade acceptance." The acceptance of the draft by a bank or banking house, which is now almost universally the practice in the settlement of international trade, came centuries later, after the establishment of a banking system and its connection with commercial business, which have gradually developed our present-day efficient settlements in foreign and domestic commerce.

From the foregoing illustration it will be seen that the theory of acceptance payment is not a new one in the world, and in fact, not new even in the United States. Acceptances were quite generally used by our merchants, even in domestic transactions, up to the Civil War in 1861. During the practical disuse of the acceptance system under our banking laws for over half a century, however, new generations have grown up, unaware of the old systems and methods. Careful study of the theory and methods of acceptance payment, since its rehabilitation under the Federal Reserve Act, has again become profitable, not only by students of finance, but by all those practicing or interested in actual merchandise credit transactions.

How the Acceptance Theory Is Put into Practice.—As the application of the theory of acceptance payment is practically the same for all classes of acceptances, it may be readily explained by a discussion of a simple buying and selling transaction on credit between domestic merchants, settled by a paper named by the Federal Reserve Board a "trade acceptance."

Payment by trade acceptance is resorted to, for instance, when a manufacturer or jobber desires to sell goods on credit to a merchant or consumer, but desires also to have some tangible documentary evidence of such sale and for its settlement. A, the seller, gives credit to B, the buyer,

and B acknowledges such credit and settles for the goods purchased by "accepting" a trade bill or trade acceptance. This obligation, payable for a certain sum at a certain date in United States money, is in full settlement of the debt, which the buyer finally liquidates by paying the amount of the trade acceptance on its due date at the bank or other place he therein designates for payment.

Acceptance payment, however, goes still further, in allowing the drawer of the acceptance to realize upon this credit or debt, under proper conditions, through the usual banking channels. The debt thus becomes "liquid," and the drawer of the acceptance is enabled to extend or operate his business without the necessity of borrowing simply on his own credit. He uses the credit of the acceptor while putting his own guarantee thereon, and furthermore, in theory, behind the transaction lies the value of the goods constituting the purchase and sale, of which the trade acceptance is the written evidence. Thus A, by selling on credit, does not become the banker of B, but, having obtained the buyer's acknowledgment of acceptance of the debt, he can sell this acknowledgment, with his indorsement and guarantee thereon, to a regular banking institution and thus liquidate the commercial credit. The banker can pass this commercial paper on through the Federal Reserve Banks, which, in turn, can issue currency against such "eligible" acceptances. Thus the cycle of liquidated credit is complete. The theory of acceptance payment, therefore, is that, under proper conditions, all commercial credit transactions will, through acceptance payment and discount, liquidate themselves completely. Acceptance payment thus assists the full and free operation of merchandise credit sales.

Care Necessary in Application of Acceptance Theory.—Obviously it is as necessary to consider the element of safety in granting credit under acceptance payment as it

is in any other credit transaction. An acceptance given by an irresponsible acceptor, or one indorsed by a drawer who, through carelessness or dishonest means, will not do his part in the liquidation of the acceptance, is an ever present risk in credit transactions by acceptance. The exercise of care and the establishment of proper safeguards by seller and banker are just as necessary on acceptance credit as on any other class of sale, discount, or loan. Hence, in studying in theory or in practice, acceptance payment, it is essential for safety to consider all aspects from a conservative standpoint. This warning should not be taken lightly by those who are too readily prejudiced in favor of acceptance theory, for although the principle is absolutely sound and practical, yet careful judgment is essential to its proper application and highest success.

The open account and cash discount are little used in foreign countries, compared with their almost universal use in business transactions in the United States. Some business men in this country have vigorously attacked the trade-acceptance system on the ground that its use, under certain conditions, is not an improvement on the open-account and cash-discount system, to which they attribute the healthy and enormous growth of trade in this country. They argue that the theory of acceptance payment, if put into universal practice, would replace our present system of cash and credit, and thus would break up the cash-discount system, which they believe to be a valuable asset in our business organization. They also hold that the acceptance, if put into general practice, would tend to extend the time of credit, and in so far as it encouraged 100 per cent discount at banks, would also tend to an undue inflation in general credit. The principal exponents of this view are found among the jobbers and those who rely on the cash discount as an important element of profit and who limit their customers' credits to approximately 30 days.

The arguments for and against the theory of acceptance credit will not be enlarged upon in this chapter. Varying views on this subject, as set forth by their sponsors, are presented in later chapters for the consideration of those interested in all views on the acceptance It may be pointed out here, however, that any theory or practice, be it good or bad, can be exaggerated, and that the methods of cash discount, if handled in an unsound manner, can be carried to an extreme as readily as the acceptance system. Furthermore, when unwarranted or improperly handled by merchants or bankers, credit, under any conditions, may be unduly extended and inflation be encouraged, whatever the medium of exchange.

Acceptance Theory Generally Indorsed Abroad.—The acceptance system of credit. modified more or less as employed in various countries and under different conditions, is commented upon by a banker prominent in international trade as follows:

Banks in the United States with international connections have for years taken advantage of the open discount markets of the large financial centers of Europe, and American houses doing an export and import business would have found it impossible to have financed the tremendous volume of imports and exports if they had not done so.

London for years has been the financial center of the world, largely due to the existence in that city of an open discount market, the result of the use of what in England are termed "bills," which are known to us as bank acceptances and trade acceptances.

Just prior to the war it was estimated that at least $3,000,000,000 of these short-time bills were in circulation in the London market. The existence of this open market has attracted idle funds from all parts of the world, which insures ample supply of capital for the use of English merchants and banks at low rates of discount. The banks of England invest in high-grade commercial paper upon which they can readily realize in case of need through the rediscount facilities that are thus provided.

As will appear in later chapters, the acceptance theory is the same for the trade acceptance as for the acceptance of which a bank or banking house is the acceptor. The difference is only in detail, in the matter of the acceptor, in that, whereas a trade acceptance is a paper representing a transaction between merely a buyer and a seller, the bankers' acceptance represents a transaction in which not only is merchandise sold, but usually the paper is drawn by the owner or seller and the banker's name is indorsed thereon as a guarantee of the payment of the acceptance.

An acceptance is the same whether it represents a domestic transaction, in which both buyer and seller are in this country, or a foreign transaction, in which one or more of the parties thereto is located in another country. Acceptances are quite universally indorsed in foreign countries and "bank bills," or "trade bills," in various forms are used to a much greater degree than they are in the United States. Their use in foreign countries will be more fully dealt with in other chapters.

There is no question that the bulk of the world's acceptance business is done through acceptances accepted or indorsed by banks. This is especially so in international trade, for it is stated that probably a total of 75 per cent of the world's foreign commerce is financed at some time or other by means of banker's acceptances. Each class of acceptance has its proper sphere and application.

Common Practice Necessary in World's Intercourse.— The consensus of opinion among the large commercial nations on the availability and value of the acceptance theory and practice leaves no doubt that the United States will find advantage in the study of acceptance methods, to the end that they may be applied wherever it is found that their use will facilitate or improve the credit transactions of the nation's commerce.

It is apparent that we are coming into closer relations

will all countries, not only politically and economically but also in trade, and that we should either standardize our methods with theirs or arrange that they standardize theirs with ours, to accomplish the greatest good for the greatest number and facilitate the most complete and satisfactory intercourse.

Nothing in the way of prejudice and ignorance should prevent the most rapid and efficient advance of commerce in this country and with the other countries of the world.

It therefore seems apparent that all students, economists, and business men should find benefit in the careful study of acceptance theory and practice. Succeeding chapters will go into the details of common practice and methods now in use in creating, handling, recording, and discounting bankers' and trade acceptances.

CHAPTER II

WHAT IS A TRADE ACCEPTANCE?

The very fact that the trade acceptance is proving valuable in its appointed field should warn against ascribing to it powers or functions which it does not possess. It has no magic which, by mere "acceptance," can convert an undesirable credit into a good one, or usurp the functions of, or do away with, the judgment of the credit man, of the seller, or of the bank.

The trade acceptance cannot make a bad account good, but its use should make good accounts prompt pay, and also enable the holder to realize on them comparably with cash. To the banker it is an augury of the use of better business methods by his clients, and to the business man, large or small, it may prove a convenience and a safeguard of great worth in smoothing out credit worries and failures by contributing to the more satisfactory standardizing of credits, as well as by advancing the education of the smaller merchant in the best business methods.

As described at length in succeeding chapters, this simple check-like paper, christened by the Federal Reserve Board the "Trade Acceptance," is used only in credit transactions that concern the purchase and sale of goods. It cannot be given for borrowed money or past due accounts, but must represent only a current transaction, in order to be eligible for handling by Federal Reserve Banks. The description "goods" covers goods, wares, merchandise, and agricultural products, including livestock. The

trade acceptance has no relation to cash transactions on short-term basis.

In brief, the trade acceptance is a simple, efficient means for enabling most business men to close a transaction cleanly in one operation, and thus make it possible for them to give more of their time to the creative side of their business and less to the costly and non-productive matter of collections.

Introduction of the Trade Acceptance in the United States.—This instrument was inaugurated as a help to business and banking in the United States by the Federal Reserve Board in its ruling defining a trade acceptance, promulgated July 15, 1915, which communication officially states:

> The attached regulation is to deal with "Trade Acceptances" as a distinct class of commercial paper for which the Board is ready to approve the establishment of a discount rate somewhat lower than applicable to other commercial paper.

In its "first word" the Board apparently placed this new member of the credit family in a class by itself. The Board goes still further in its introduction and says that the

> Board expresses the belief that it (the trade acceptance) will considerably enlarge the scope of service of Federal Reserve Banks and incidentally assist in developing a class of "double name" paper, which has shown itself in so many countries a desirable form of investment and an important factor in modern commercial banking systems.

Thus is ascribed to the trade acceptance the potential possibility of enlarging the "scope of service" of the Reserve Banks to the commercial world at large. It is also defined as a kind of paper which has shown itself a "desirable investment" in many countries as well as an "important commercial banking factor."

It is natural that the commercial world should give consideration to a new credit instrument to which no less a body than the Supreme Court of Finance of the United States—the Federal Reserve Board—ascribes so many diverse powers of benefit to American banking and business.

Following the lead from headquarters, certain bankers took up the propaganda for prompt adoption of the trade acceptance. They generously gave aid by speeches and articles, setting forth the benefits to be derived by the commerce of the country by substituting the trade acceptance method of giving credit for the old open account system, which has so long held sway in the United States.

To the National Association of Credit Men can be ascribed the first organized effort to enlighten the business mind of the country as to the benefits of the trade acceptance in liquefying the four billions of frozen open-account credits of the country. Following the credit men's lead, the live captain of industry began to inquire, "What is this trade acceptance I hear and read so much about?" When he sought for a simple or detailed explanation he was not over-well rewarded, unfortunately, because most of the first pamphlets on the subject were published speeches or technical treatises by bankers or credit men, who naturally did not speak in the every-day business terms of the ordinary merchant or manufacturer.

The financial mind overlooked the effect of explanations too technical for ready comprehension by the average business man, who does not come into continual contact with financially phrased literature. The average business man is usually very busy, and may, therefore, cast aside anything that is "too much bother to puzzle out" or, if he does not clearly comprehend its meaning and significance, he sometimes suspects that it contains hidden dangers of

which he is ignorant, and, therefore, he decides "to take no chances" with this unknown quantity.

Definition of the Trade Acceptance.—The first explanations of the trade acceptance mostly read as follows:

> A trade acceptance is a *draft* drawn by the seller on the *buyer* acknowledging a *debt* for value, having a *definite maturity,* and *payable* in dollars in the United States *without qualifications,* and *signed* by the *buyer* across the face. It differs from an open account only in having a *negotiable value* to the *seller.*

This definition is entirely correct but unattractive to the acceptor. In later trade-acceptance literature a great improvement is seen, it being apparently realized then that when a campaign is launched to bring enlightenment to all the highways and byways of business, it must be presented in language free from technical terms.

The salient points in the Board's ruling (which appears in full in Chapter IV) may be covered as follows: "A trade acceptance is an order to pay, drawn by the seller and accepted by the buyer, and represents current transactions in merchandise only, as stated on its face." One authority describes it as "a time bill of exchange, serving the same purpose as a transfer of gold itself, in the cancellation of debts. Economists regard it as a sort of special currency."

Or, more particularly defined, it is: A bill of exchange arising out of a current merchandise transaction, drawn to order, having a definite maturity, and payable in dollars in the United States. The obligation to pay has been accepted by an acknowledgment, written or stamped, and signed, across the face of the instrument, by the company, firm, corporation, or person upon whom it is drawn and who is the buyer. The agreement is to the effect that the acceptor will pay at maturity, according to its tenor, such bill without qualifying conditions. A trade acceptance is a two-name paper and has behind it not only the names of

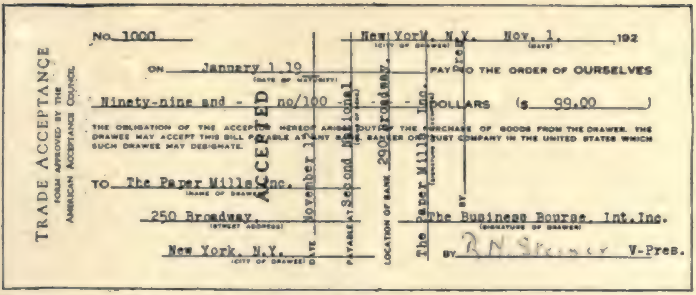

TRADE ACCEPTANCE
FORM APPROVED BY THE AMERICAN ACCEPTANCE COUNCIL
No. 1000
New York, N.Y. (CITY OF DRAWER) Nov. 1, (DATE) 192
ON January 1, 19 (DATE OF MATURITY) PAY TO THE ORDER OF OURSELVES
Ninety-nine and - no/100 - - - - DOLLARS ($ 99.00)
THE OBLIGATION OF THE ACCEPTOR HEREOF ARISES OUT OF THE PURCHASE OF GOODS FROM THE DRAWER. THE DRAWEE MAY ACCEPT THIS BILL PAYABLE AT ANY BANK, BANKER OR TRUST COMPANY IN THE UNITED STATES WHICH SUCH DRAWEE MAY DESIGNATE.
TO The Paper Mills, Inc. (NAME OF DRAWEE)
250 Broadway, (STREET ADDRESS)
New York, N.Y. (CITY OF DRAWEE)
ACCEPTED
DATE November 1
PAYABLE AT Second National
LOCATION OF BANK 290 Broadway,
The Paper Mills, Inc.
BY Pres.
The Business Bourse, Int. Inc. (SIGNATURE OF DRAWER)
BY R. N. Spencer V-Pres.

FIGURE 1. TRADE ACCEPTANCE FORM OF THE AMERICAN ACCEPTANCE COUNCIL

the acceptor and the drawer, but also those of any indorsers, and it also has the advantage of representing an actual, current, merchandise credit transaction.

The president of a large national bank defines it as follows:

> A trade acceptance is a negotiable acknowledgment of the receipt of goods and an agreement to pay for same at a fixed time or place. The function of the trade acceptance is to take the place of the goods you sell. In my business, banking, when we sell goods, we take from the purchaser something representing that sale, and, if these goods pass out of our hands, we have in our portfolio some form of receipt from the purchaser, or holder, representing the goods.
>
> It is just as important that the billions of dollars' worth of goods passing between manufacturer or jobber, and retailer or consumer, on credit, should be represented by some form of receipt or negotiable instrument, as it is that money, when it is taken from the bank, should be represented by some form of an obligation.

What the Trade Acceptance Is Not.—A trade acceptance cannot be made to cover professional services, commissions, sales of stocks, or any debts not incurred through the "purchase of goods from the drawer." It should not cover a past-due account, because it distinctly represents a current merchandise credit transaction.

The average business man is apt to class it with similar papers familiar to him, with the exception of the common check or voucher. On first receiving the trade acceptance attached to the invoice or statement, his memory naturally reverts to past experience, and he thinks immediately of the "sight draft attached" which he has received when goods were sold to him "cash on delivery." But the trade acceptance in its very essence differs from any kind of document pertaining to a "cash" transaction, for it is specifically designed to afford an equitable means of selling on credit. It is equally far from a sight draft drawn by the seller on the buyer to close an account, usually overdue or unsatisfactory as to payment. The trade acceptance is brought into being when the goods are sold, on definite terms clearly stated on the face of the acceptance, which are part of the understanding entered into by the buyer when he writes his acceptance across the face of the instrument.

The trade acceptance evidently differs from the "note" of a buyer, which, though useful in its proper field, can represent any debt, which may have stood for any length of time and which usually bears interest or calls for discount. The trade acceptance differs radically in make-up from any note, since it is made by and signed by the seller, instead of the buyer (who later accepts it). It must be made out at the time of buying goods or soon after the shipment of them. It cannot be made for any purpose but to pay for goods sold the acceptor (buyer) by the drawer (seller) and, unlike a note, it cannot be renewed or extended.

It is, therefore, very evident that it is a "gilt-edge" credit paper and cannot, under its restrictions, get into the doubtful credit class, nor can its existence, properly, be construed by a banker or any one else as a reflection on a buyer's credit standing—in fact, it should rather be in-

terpreted the other way, and should put the acceptor into the preferred class of credit buyers, or at least next to those who discount their bills for cash. This is fully borne out by the original ruling and definition of its creator, the Federal Reserve Board, when according approval to a "preferential discount over other classes of commercial paper."

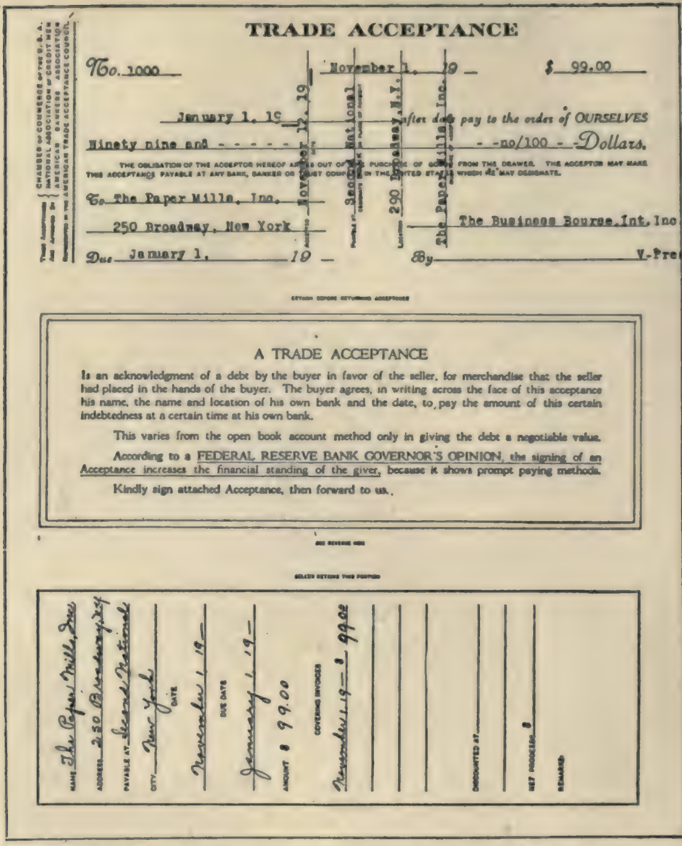
Credit agencies and bankers state that the trade acceptance creates another class of credit rating, and they class buyers as follows:

1. Those who discount for cash.
2. Those who pay by trade acceptance.
3. Those who pay on open account.

Its Facility for Discount.—It has been made clear that the trade acceptance is a two-name, merchandise-credit, commercial paper, and is often, of the same class of names most readily discounted by a banker.

It can sometimes be used to increase the "line of discount" of the seller, as well as the line of credit of the buyer. It conflicts little with the handling of the borrower's own notes, or "line of credit," *when the latter are based on inventory or investment.* One reason for this is that the banker recognizes the trade acceptance not as the seller's obligation, but that he will look to the buyer, at least primarily, for payment and that the buyer, in theory if not in fact, will pay from the proceeds of the goods sold to him by the seller, and not from working or fixed capital.

The average banker also takes into account that acceptances carry a widely diversified risk; that is, they are to be paid in comparatively small amounts by buyers who are usually in various localities and often in different trades. The banker, therefore, knows from past experience that his risk is thus very much less than if he had to look



TRADE ACCEPTANCE

No. 1000 November 1, 19 — $ 99.00

January 1, 19 after date pay to the order of OURSELVES

Ninety nine and - - - - - - - no/100 - - Dollars.

THE OBLIGATION OF THE ACCEPTOR HEREOF ARISES OUT OF THE PURCHASE OF GOODS FROM THE DRAWER. THE ACCEPTOR MAY MAKE THIS ACCEPTANCE PAYABLE AT ANY BANK, BANKER OR TRUST COMPANY IN THE UNITED STATES WHICH HE MAY DESIGNATE.

To The Paper Mills, Inc.

250 Broadway, New York

Due January 1, 19 —

November 12, 19 — Second National — 290 Broadway, N.Y. — The Paper Mills Inc.

The Business Bourse, Int. Inc.

By V-Pres

A TRADE ACCEPTANCE

Is an acknowledgment of a debt by the buyer in favor of the seller, for merchandise that the seller had placed in the hands of the buyer. The buyer agrees, in writing across the face of this acceptance his name, the name and location of his own bank and the date, to pay the amount of this certain indebtedness at a certain time at his own bank.

This varies from the open book account method only in giving the debt a negotiable value.

According to a FEDERAL RESERVE BANK GOVERNOR'S OPINION, the signing of an Acceptance increases the financial standing of the giver, because it shows prompt paying methods.

Kindly sign attached Acceptance, then forward to us.

Name The Paper Mills, Inc. — Address 250 Broadway N.Y. — Payable at Second National — City New York — Date November 1, 19 — — Due date January 1, 19 — — Amount $ 99.00 — Covering invoices November 1, 19 — $ 99.00 — Discounted at — Net proceeds $ — Remarks

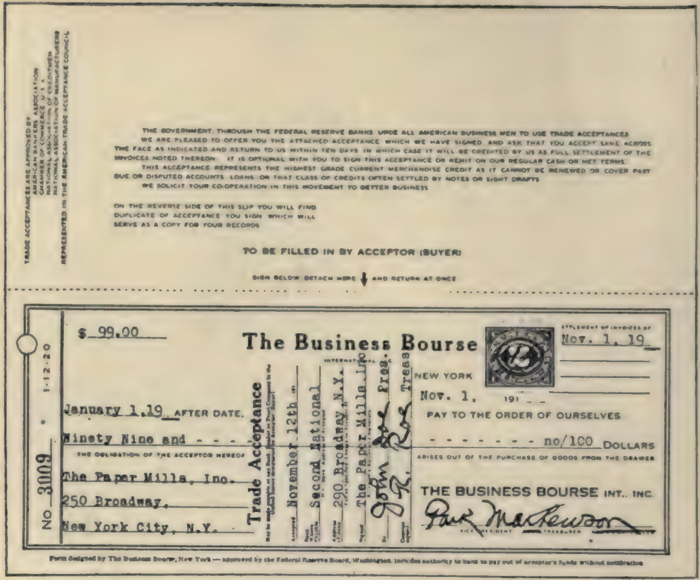
FIGURE 2. TRADE ACCEPTANCE FORM OF THE NATIONAL ASSOCIATION OF CREDIT MEN

to one firm, of the same credit standing, to pay the sum total of the trade acceptances he is discounting, while, under all circumstances, he has the seller's guarantee through endorsement of the paper.

Seller's Contingent Liability.—It is true that when the seller indorses a trade acceptance over to the banker for

FIGURE 2A. REVERSE OF FIGURE 2

discount or collection, he assumes the liability to pay it if the buyer fails to do so, but this contingent liability, it has been proved, is only proportionate to his care in granting his customers credit, and the records of an average credit department show it is practically a negligible quantity. A manufacturer stated to a convention that his loss from trade acceptance credits of over $1,200,000 was 3/100



TRADE ACCEPTANCES ARE APPROVED BY
AMERICAN BANKERS ASSOCIATION
CHAMBER OF COMMERCE U. S. A.
NATIONAL ASSOCIATION OF CREDIT MEN
NATIONAL ASSOCIATION OF MANUFACTURERS
REPRESENTED IN THE AMERICAN TRADE ACCEPTANCE COUNCIL

THE GOVERNMENT, THROUGH THE FEDERAL RESERVE BANKS URGE ALL AMERICAN BUSINESS MEN TO USE TRADE ACCEPTANCES

WE ARE PLEASED TO OFFER YOU THE ATTACHED ACCEPTANCE WHICH WE HAVE SIGNED AND ASK THAT YOU ACCEPT SAME ACROSS THE FACE AS INDICATED AND RETURN TO US WITHIN TEN DAYS IN WHICH CASE IT WILL BE CREDITED BY US AS FULL SETTLEMENT OF THE INVOICES NOTED THEREON. IT IS OPTIONAL WITH YOU TO SIGN THIS ACCEPTANCE OR REMIT ON OUR REGULAR CASH OR NET TERMS.

THIS ACCEPTANCE REPRESENTS THE HIGHEST GRADE CURRENT MERCHANDISE CREDIT AS IT CANNOT BE RENEWED OR COVER PAST DUE OR DISPUTED ACCOUNTS LOANS OR THAT CLASS OF CREDITS OFTEN SETTLED BY NOTES OR SIGHT DRAFTS.

WE SOLICIT YOUR CO-OPERATION IN THIS MOVEMENT TO BETTER BUSINESS

ON THE REVERSE SIDE OF THIS SLIP YOU WILL FIND DUPLICATE OF ACCEPTANCE YOU SIGN WHICH WILL SERVE AS A COPY FOR YOUR RECORDS

TO BE FILLED IN BY ACCEPTOR (BUYER)

SIGN BELOW DETACH HERE AND RETURN AT ONCE

No 3009 1-12-20

$ 99.00

The Business Bourse

NEW YORK Nov. 1, 191_

January 1,19 AFTER DATE. PAY TO THE ORDER OF OURSELVES

Ninety Nine and - - - - - - - - - - - no/100 DOLLARS

THE OBLIGATION OF THE ACCEPTOR HEREOF ARISES OUT OF THE PURCHASE OF GOODS FROM THE DRAWER

The Paper Mills, Inc.
250 Broadway,
New York City, N.Y.

Trade Acceptance

Accepted November 12th

Second National

290 Broadway, N.Y.

The Paper Mills Inc.

John Doe Pres.

John R. Roe Treas.

SETTLEMENT OF INVOICES OF Nov. 1, 19

THE BUSINESS BOURSE INT., INC.

Park Mathewson

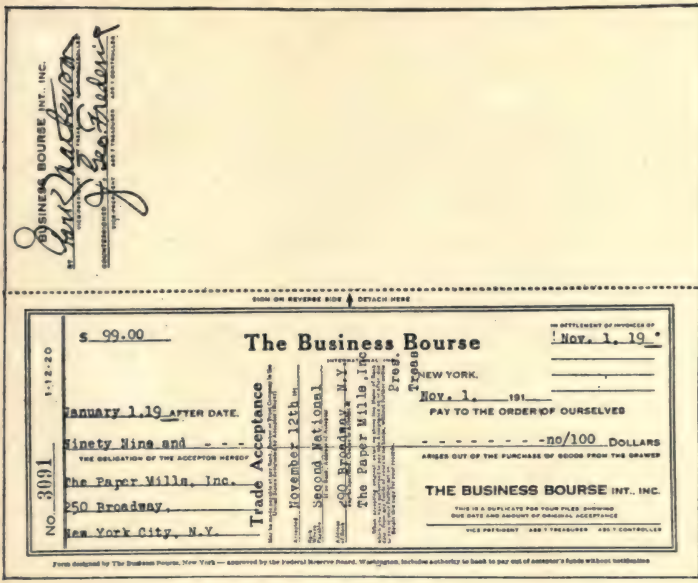
VICE PRESIDENT TREASURER

Form designed by The Business Bourse, New York — approved by the Federal Reserve Board, Washington. Includes authority to bank to pay out of acceptor's funds without notification

FIGURE 3. STANDARD FORM TRADE ACCEPTANCE DESIGNED BY THE BUSINESS BOURSE

of 1 per cent, against 27/100 of 1 per cent on his total credits.

It can be believed that this view must be sound, since the Federal Reserve Law and the Federal Reserve Board rulings recognize that, since the obligation is not of the drawer but of the drawee, the paper is not the drawer's and, therefore, the banks can discount trade acceptances for their clients to as large an amount as they deem advisable. In the smaller centers this operates to help the small banks and their customers, because such borrowers may get a much more adequate line of credit without the necessity of going to banks in other cities or of selling their notes to brokers, or even of being obliged to resort to hypothecating their accounts, often at high rates.


BUSINESS BOURSE INT., INC.

SIGN ON REVERSE SIDE ↑ DETACH HERE

No. 3091 1-12-20

$ 99.00

The Business Bourse

Nov. 1. 19

NEW YORK.

Nov. 1. 191

January 1.19 AFTER DATE.

PAY TO THE ORDER OF OURSELVES

Ninety Nine and - - - - - - - - - - -no/100 DOLLARS

THE OBLIGATION OF THE ACCEPTOR HEREOF ARISES OUT OF THE PURCHASE OF GOODS FROM THE DRAWER

The Paper Mills, Inc.

250 Broadway,

New York City, N.Y.

Trade Acceptance

November 12th

Second National

290 Broadway, N.Y.

The Paper Mills, Inc.

Pres.

Treas.

THE BUSINESS BOURSE INT., INC.

THIS IS A DUPLICATE FOR YOUR FILES SHOWING DUE DATE AND AMOUNT OF ORIGINAL ACCEPTANCE

VICE PRESIDENT ASS'T TREASURER ASS'T CONTROLLER

FIGURE 3A. REVERSE OF FIGURE 3

Forms of Trade Acceptance Eligible for Rediscount.—No specific form for a trade acceptance has been defined or recommended by the Federal Reserve Board, although the rulings show that a certain wording, or its equivalent, must be a part of a trade acceptance eligible for rediscount by a Federal Reserve Bank. The phrase, or its equivalent, which the ruling specifically requires is that "the obligation of the acceptor hereof arises out of the purchase of goods from the drawer." Another statement on the acceptance that is considered desirable is that the acceptance "may be made payable at any bank, banker, or trust company in the United States designated by the acceptor."

A form of acceptance indorsed by the American Acceptance Council and approved by the Federal Reserve Board is shown in Figure 1. This council has not recom-

mended any specific form of explanatory data or memo. attached but has indicated thereon the method of completing the acceptance. This form has been adapted and adopted by many firms and banks throughout the United States.

Figure 2 is a form which has been advocated by the National Association of Credit Men, with no practical changes, almost since the first trade acceptance was created under the Federal Reserve rulings. It is a legal and practical form with memo. records for both seller and buyer. These records are filled in by hand, not as carbon copies of the original.

Standard Form of Acceptance Furnishing Carbon Copy.—The following standard form of trade acceptance (Figure 3) has been submitted to the Federal Reserve Board, which, in approving it, states:

> The Board is of the opinion that the acceptance is very satisfactory and has no changes to suggest.

Its practical advantages and the Board's full approval of this form as to detail are shown in other chapters. This form is suitable for use by any firm, and forms a complete record for buyer as well as seller. As many duplicate carbon copies as desired may be made, when the original is made out, for records or follow-ups. Users of this book are at liberty to reprint this form for their use.

When the Trade Acceptance Is a Completed Instrument.—When the buyer has "accepted," he has merely to return the acceptance which he has completed to the seller or firm which has "drawn" the acceptance on him. The seller then has the original acceptance and the buyer, when a duplicate is furnished for his record, as on the reverse of the memo. slip provided on the Standard Forms of acceptance (Figures 2 and 3), may have a carbon for his record. The trade acceptance, when received by the drawer, is now

a completed instrument, and must bear revenue stamps placed thereon by the drawer, as per the ruling of the United States Revenue Department given in Chapter VIII.

The drawer, when he receives the acceptance from the buyer, is paid for his goods, just as he would be by a check, note, or accepted draft, and has recourse on that paper thereafter, and not on an open account, as explained more fully in Chapter IX.

The Acceptance's Place and Purpose.—From the foregoing brief discussion of the trade acceptance it is evident that it is meant to facilitate and liquefy *merchandise credit* transactions, and that it in no way affects short-term spot cash or cash discount sales. Its chief purposes for the buyer, seller, and business in general are discussed under separate headings as well as the scope and history of the banker's acceptance.

The following chapters will show what to do with the acceptance and how to do it.

CHAPTER III

ACCEPTANCE PROCEDURE IN CANADA AND EUROPE

Use of Trade Acceptances in European Countries.—In Europe there have not arisen the conditions and necessities which would fix on its business men the undemocratic and unwieldy form of large cash discounts with the open accounts credit system, prevailing generally in the United States of America since the Civil War.

Those who are familiar with the methods of financing merchandise transactions in Europe, as well as in Canada, are fully aware that the "merchandise bill," "trade bill," "bill of exchange," "bank bill," "finance bill," or other time bill, under various names, is in almost universal use there as the basis of credit.

An important digest of the development of the acceptance and the free market for it in Europe says:

> Though it is not possible to determine with any degree of certainty when a free discount market began to develop, it is impossible to imagine such a market without a properly organized central banking institution. In Europe, the principal central banks were at one time little more than bankers to the government and had little regard for the requirements of industry and commerce. When gradually a sounder view in public finance began to prevail and in the first half of the past century the growing importance of international commerce became manifest, more attention began to be paid to the organization of banking along lines beneficial to the business community. With the growing importance of foreign trade, the establishment of special banking institutions and commercial houses for trade and finance overseas was a natural development. Hand in hand, therewith, went an increasing volume of bills of exchange to be handled,

and between 1830 and 1850 a number of the leading joint stock banks were established. We also find that a number of private houses, especially dedicating themselves to the financing of mercantile business, were established around that time in England. It was not, however, until some time later that the first discount company was established, namely, the National Discount Company, in 1856, with the object of dealing in bills of exchange.

Figures are often quoted to show the use and scope of the acceptance in Europe, but it may be considered as almost universal, in one form or another.

An individual acceptance is not usually drawn for a sum larger than $5,000 in order to find a ready discount market, and they run as low as $1.00, notably in France, where, it is said, the system extends down to the man who keeps the stand on the street corner and who often gives an acceptance in buying his daily stock in trade. Reliable figures are quoted to show that, out of the several billions' worth of such paper handled in a year by the Bank of France, one-half of it is in denominations of $20 or less, and the average "bill" is little in excess of $100. Approximate conditions could be quoted in Great Britain and Germany, and, to a modified degree, in other European countries, as well as in Canada.

Trade acceptances, or bills, are taken and held by large and small business men in France and other European countries until again passed out (less discount not earned), as currency would be handled; but in the meantime, while holding the acceptance, the holder is earning his share of the discount, or interest, which, though small (as low as 3¼ per cent per annum previous to the war) is an item that his thrift does not disregard.

It is conceded that a much larger volume of business is done in England and other foreign countries on a similar amount of fixed capital, than in the United States, and on at least as safe, if not a safer, basis. As capital turn-

over is an important element of the cost of doing business, so this result is worthy of careful consideration and emulation, so far as consistent with conditions in this country.

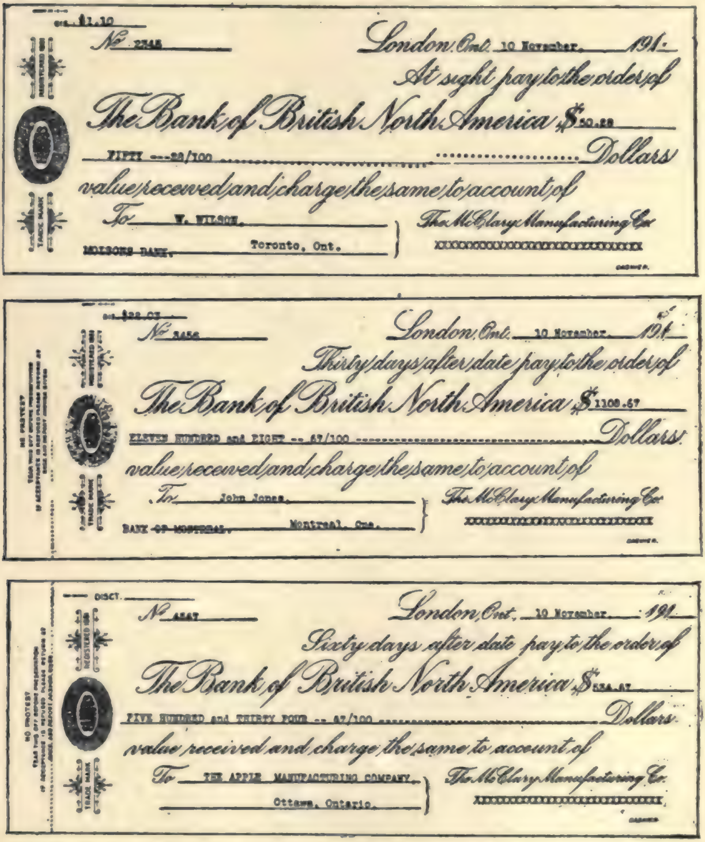
It is not possible, nor is it the intention, in the brief space available in this volume, to go deeply into the systems or detailed methods of financing mercantile transactions in other countries. It is intended merely to point out the chief similarities or differences between the systems and methods of the United States and its chief commercial rivals, with a view to helping the American banker and business man to apply any favorable methods which now prevail "over there."

Experience of Representative Canadian Firms with the Acceptance System.—A résumé of the principal methods and details of Canadian credit procedure may be of particular interest to the student of our system in pointing out to him ways to take advantage of our facilities, through consideration of those which have proved of advantage to our near neighbor during the last 25 years or more.

Many years' experience with a system is probably the most convincing test of its practicability. A letter on this subject received from a representative Canadian manufacturer and jobber follows:

> This system (acceptances) enables us to get our accounts closed promptly, and overcomes the evil of customers taking discounts after the discount period has expired. At the end of each month we make out statements for all accounts, and on these statements figure out the drafts which are made from the statements. The statements are then mailed to the customers and the drafts sent to the bank, and by the time the drafts reach the customers (through the banks) they have had an opportunity to check up the statements, and if there are any discrepancies, they are able to advise us.
>
> Our bankers give us a receipt for all the drafts which we

give them for collection, and these are credited to our account when they have been paid. The bank has instructions to return the draft immediately, if same is not accepted. We do not



No. 2348 London, Ont. 10 November. 191

At sight pay to the order of

The Bank of British North America $50.28

FIFTY ---28/100 Dollars

value received and charge the same to account of

To W. WILSON, The McClary Manufacturing Co

MOLSONS BANK, Toronto, Ont.

No. 3456 London, Ont. 10 November. 191

Thirty days after date pay to the order of

The Bank of British North America $1108.67

ELEVEN HUNDRED and EIGHT -- 67/100 Dollars

value received and charge the same to account of

To John Jones, The McClary Manufacturing Co

BANK OF MONTREAL, Montreal, Que.

No. 4567 London, Ont. 10 November. 191

Sixty days after date pay to the order of

The Bank of British North America $534.67

FIVE HUNDRED and THIRTY FOUR -- 67/100 Dollars

value received and charge the same to account of

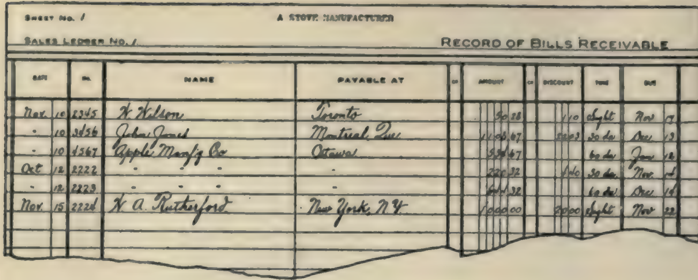
To THE APPLE MANUFACTURING COMPANY, The McClary Manufacturing Co.

Ottawa, Ontario.

FIGURES 4, 5, AND 6. TYPICAL DRAFTS OR ACCEPTANCES OF A CANADIAN MANUFACTURER

discount any of our drafts, although if we required the funds we would be able to do so.

We think that the majority of Canadian manufacturers and wholesalers have some such method of making their collections.



SHEET NO. 1 A STOVE MANUFACTURER

SALES LEDGER NO. 1 RECORD OF BILLS RECEIVABLE

DATE		NO.	NAME	PAYABLE AT	AMOUNT	DISCOUNT	TIME	DUE	
Nov.	10	2345	W. Wilson	Toronto	30 28	1 10	sight	Nov	13
"	10	3456	John Jones	Montreal, Que.	[illegible] 67	[illegible]	30 da.	Dec.	13
"	10	4567	Apple Manf'g Co	Ottawa	[illegible] 67		60 da.	Jan	12
Oct	12	2222	" " "	"	220 32	[illegible]	30 da.	Nov.	[illegible]
"	12	2223	" " "	"	[illegible] 32		60 da.	Dec.	14
Nov.	15	2224	W. A. Rutherford	New York, N.Y.	1000 00	20 00	sight	Nov	22

FIGURE 7. ACCEPTANCE REGISTER OR RECORD OF BILLS RECEIVABLE OF A CANADIAN MANUFACTURER

Figures 4, 5, and 6 are reproductions of forms of the foregoing firm, consisting of three "time drafts," or acceptances, at sight, 30 and 60 days, respectively, drawn on the buyer by the seller, payable to the bank of the seller (drawer). In the first two cases the bank of the buyer is designated, in the last it is not. This draft must be accepted by the drawee (buyer) to complete the instrument, although a bank in Canada will usually discount it before acceptance.

Figure 7 is a "record of bills receivable" of this Canadian manufacturer. It is very complete and carefully worked out as to details, much more so than the majority of American bookkeeping records for the same purpose, since the latter are usually kept more as memo. records of detail and the entries are later transferred in bulk to the permanent records. This is made necessary by the large number of accounts and items handled in the United States and the fact that only a portion of the acceptances sent out are returned completed by the buyers of the goods they cover.

An elaborate record, similar to this one, might be possible for firms in the United States not having heavy transactions in acceptances.

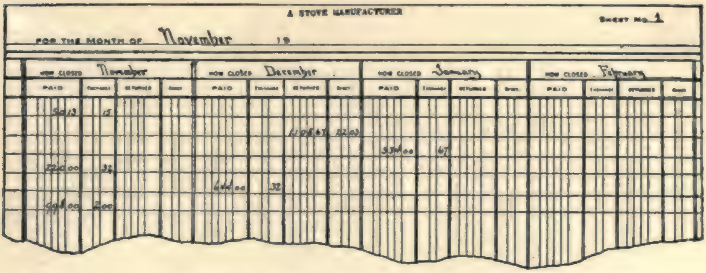


FIGURE 7. ACCEPTANCE REGISTER OR RECORD OF BILLS RECEIVABLE OF A CANADIAN MANUFACTURER

Experience of a Canadian Jobbing House.—The following is a very interesting comment by a Canadian hardware jobbing house on methods used for 30 years and results achieved by them through the use of the trade bills, or notes:

We have endeavored to close as many of our accounts as possible each month by note or draft, for over 30 years. We render a monthly statement to all our customers who have purchased goods during the previous month and we are of the opinion that of those customers not taking advantage of the cash discount, fully 90 per cent close their accounts monthly with either promissory notes or an accepted draft at three months from the average date.

The blank form promissory notes we enclose with the monthly statement, or if the account is usually closed by a three months' draft, we forward the draft, for acceptance and return to us, through our bank here.

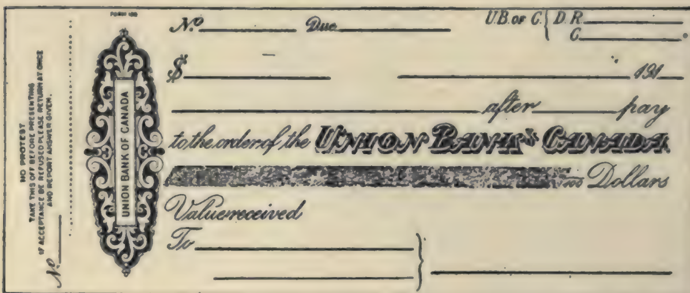
When these notes and accepted drafts are returned to us we credit them up to the accounts of the different customers and debit bills receivable account. We do not discount their paper but hold it at our office. If it is made payable at our office we retain it here to maturity; if it is payable at the customer's bank we hold it here until three days before maturity when we deposit it through our own bank here, crediting it up through the cash book to bills receivable account.

Only a small percentage of these acceptances and promissory notes are not met at maturity, but where any of them are not

paid in full during the current month of their maturity, they are recharged to the customer's account and credited to bills receivable. Or if they have been deposited in our bank and are returned unpaid, we give our bank a check for them and charge them to the customer's account.

We prefer to have as many accounts as possible closed each month in this manner, as it is our experience that payments are made more promptly when attended to in this manner. We do not give any preferential discount or any preferential terms for acceptance of draft.

The acceptance shown in Figure 8 is a typical form of a Canadian banking institution.


No. ______ Due ______ U.B. or C. { D.R. ______ C. ______
$______ ______ 191__
______ after ______ pay
to the order of the Union Bank of Canada
______ Dollars
Value received
To ______

NO PROTEST.
UNION BANK OF CANADA

FIGURE 8. TYPICAL CANADIAN DRAFT OR TRADE ACCEPTANCE FORM

Principles and Procedure in Canadian Credits.—A Canadian firm, unless exceptionally large or having a very extended business, provides for its credits through an annual arrangement (based upon its statement) with one bank, not several financial institutions, as is often the case in this country.

Although every one in Canada, either in trade or banking, understands the procedure and advantage of trade paper, or acceptances, their credit is not limited to this one type of loan; but a regular "line of credit," secured by single-name promissory notes, is arranged annually with the bank to furnish working capital. To guard carefully

against this line's being used for "fixed" capital, it is checked up with the firm's investment in quick assets, and it is expected that it will be cleaned up or greatly reduced at seasons of lowest inventory showing.

As their trade paper, or acceptance, includes renewable notes of their customers, it is also watched closely to see that it does not exceed the correct proportion for the sales outstanding at that season of the year. As the trade acceptance of the United States represents a current transaction and is not renewed, it furnishes a better medium for careful judgment by our banks than does the rather variable basis of the Canadian trade paper.

Hypothecating Accounts with Banks and Discounting before Acceptance.—In Canada, as in this country, no adequate plan seems to have been evolved to obtain acceptances from the biggest buyers, who settle by their own check, banker's check, or sight draft on cash terms at maturity. These accounts are often hypothecated to the bank, which lends against them, taking a draft against the firm owing the account, and holding it until maturity or until it is liquidated through remittance of the buyer to the seller, who then settles with the bank. Such accounts are assigned to the bank, which has a recognized lien thereon.

Lodging trade paper with the bank before acceptance and having it discounted at once, before it is sent to the buyer for acceptance, is a Canadian custom which is safer there than it would be in this country, because there the acceptance of the bill is, through custom, practically a foregone conclusion; while in this country no such uniformity of practice has as yet been arrived at, and such procedure would necessitate a much larger percentage of charge-backs of unaccepted drafts than occurs in Canada.

Where there is any doubt as to the acceptance, the acceptances are sent forward for "acceptance and return," and discounted upon return, if accepted.

Cash terms in Canada are not of the elastic variety often current in this country. Holding a buyer to the exact cash terms is accomplished by sending drafts with bill of lading attached when the credit is not thoroughly established, or often, short-term drafts or acceptances which limit the coverage of "cash terms" to the exact time designated. It appears that the use of such methods in this country would tend to make payment on cash terms conform more nearly to time for payment as stated, at least when it can be ascertained on what terms the buyer is to pay, and when the distance in transit of the collection would not exceed the time offered for cash.

Current Acceptance Customs in European Countries.—*Great Britain.*—In London and other English markets, several kinds of "bills" (acceptances) are dealt in. The two constituting the greatest bulk of these transactions are the "trade bill," which is practically identical with the trade acceptance of the United States; and the finance bill, which may represent different classes of transactions, such as exchange transactions, the carrying of stocks of goods, or securities, or other financial transactions, or which may be merely "accommodation paper." When drawn for the latter purpose, it is not rediscountable at the Bank of England as are the other finance or trade bills.

The foundation of the English acceptance market is the acceptance drawn on and accepted by a banker; and such "prime" bills, in practically unlimited quantities, command the readiest markets and the lowest rates obtainable. The laws governing the handling of these matters by the banks are not strict, but the customs are very rigid, and the banks govern themselves accordingly.

The Bank of England does not buy acceptances if payable out of the country, and all bills purchased must bear one British name beside that of the British acceptor. The rate is governed on the theory of supply and demand

and is fixed weekly by the Bank of England on domestic bills.

Foreign bills or acceptances in large quantities, are dealt in freely, and ability to discount and the rates are regulated by supply and demand, as well as the security back of the paper and the time it requires to transmit funds from point of collection, for which interest is usually charged the buyer.

Open accounts, in both foreign and domestic commercial credit, are used in Great Britain, principally with buyers of high standing or those who buy on cash terms. Whenever possible sellers aim to close all credits with accepted draft or promissory note for not over three months. Information from some sources tends to show that the use of open accounts is quite prevalent in certain trades.

France.—Although in Great Britain and, to a lesser extent, in Germany, the bankers' acceptance, or bill accepted by a bank, is the most sought-after and used form of closing credit, in France the individual firm's acceptance, or trade acceptance, is the one in most common use. These acceptances must bear three names, of whom two must be of residents of France of good financial standing (solvent), to be discountable at any of the 500-odd branches of the Bank of France. Private banks buy two-name acceptances freely and, by indorsing them, can rediscount them at the Bank of France in a similar manner to rediscount of trade acceptances in the United States by member banks with Federal Reserve Banks. Private bank charges for acceptance vary around one quarter of one per cent for three months.

Commercial paper, together with silver and gold, forms the basis for the issue of French banknotes; and prime paper is used almost as currency and is interchangeable, under certain conditions, with currency. The open account and bank check are little known or liked in France,

and commerce there is almost universally on an acceptance basis.

Germany.—Before the war Germany developed to a high degree the acceptance principle in settlement of its trade obligations, both domestic and foreign. The domestic bills ran mostly between 30 and 90 days, but some of the foreign bills were for a much longer period. These foreign acceptances often finance an export agent rather than the original manufacturers, especially if the latter do not deal directly with the foreign buyer, but get settlement from the export agent usually in 30 days.

On account of the bankers' acceptance being considered a higher grade of credit than the average trade bill, or acceptance, it is used in Germany very largely in important commercial transactions.

The trade bill, or "*wechsel,*" is in use in approximately all domestic settlements between buyers and sellers, in which a banker does not intervene to make a bankers' acceptance, and it is subject to such drastic laws that the buyer takes the debt very seriously, for under certain conditions he is liable to imprisonment for not living up to his acceptance obligations.

The chief activity of the Reichsbank, or central bank (privately owned, but under Government control), was discounting these trade bills. A very active and free market is maintained at all times for all classes of good acceptances.

Other foreign countries.—Other countries, including all the Continental countries and other leading commercial nations like Japan and independent or semi-dependent states, as well as the South American republics, follow quite closely the procedure of Great Britain, France, or Germany.

Summary of Procedure in Leading Commercial Nations. —The procedure of practically all commercial nations, ex-

cepting our own, may be described by saying, "They are on an acceptance basis." In each country, as is natural, various differences of plan, method, or detail have grown up with the development of their commercial system, according to the needs of their people and trade.

Some nations follow the British custom of bankers' bills and more limited time, especially in foreign transactions; while others lean toward the German plan of close coöperation between seller, buyer, and bank, often resulting in long-time, or special, credit terms. Still others follow the methods of France and her democratic system of large and small trade acceptances; while in Canada each firm is usually financed by one bank through acceptances and notes.

United States Can Build Her Own Procedure.—It is perfectly possible for our merchants and bankers to build up a satisfactory system of acceptance credits best suited to the needs and conditions of our country, commerce, and banking systems. It should be of great assistance to us in accomplishing a satisfactory result, that we have before us the experience and matured methods of the great nations of the world upon which to base our deductions and finished plans.

In the Federal Reserve Act, amendments, and rulings thereon by the Federal Reserve Board, the commerce of this country has not only an exact but a very broad and effective plan to work upon, which ensures closest coöperation and generous assistance to American business men and bankers by the central Government through the extensive Federal Reserve System.

An authority on banking and commercial finance said at the close of the world war:

We have witnessed the efficiency of our Federal Reserve Banking System, which has been characterized by Sir Edward Holden as a banking system which surpasses in strength and in excel-

lence any other banking system in the world. England, with relatively small gold reserves, has been preëminent in the financial and commercial world, and London has been the world's money center, largely through her well-organized, elastic commercial credit system, in which the self-liquidating commercial bill of exchange has been a predominating factor. Well-organized commercial credit will be the life-blood of the world's activities in the reconstructive days.

CHAPTER IV

ACCEPTANCES IN THE UNITED STATES

The American banker and business man need not look upon the acceptance as an interloper in the American credit family, for it is really an elder brother to the present methods, since the latter have only grown into use with this country's business since the Civil War. The Southern planters of cotton and tobacco, as well as other business men in the United States, continued the use of the acceptance, in its domestic or interstate form, practically up to the time of the Civil War, and some of the older bankers and business men still recall the common use of the acceptances or bills of exchange as used at that time.

As evidencing the attitude of statesmen of the United States toward a commercial credit system adequate to handle the transactions of commerce, the following quotation from a speech of Daniel Webster, delivered before the United States Senate in 1834, is interesting. He said, in part:

> Commercial credit is the creation of modern times, and belongs in its highest perfection only to the most enlightened and best governed nations.
>
> Credit is the vital air of the system of modern commerce. It has done more—a thousand times more—to enrich nations than all the mines of all the world. It has excited labor, stimulated manufacturers, pushed commerce over every sea, and brought every nation, every kingdom, and every small tribe among the races of men to be known to all the rest. It has raised armies, equipped navies, and triumphing over the gross power of mere

numbers, it has established national superiority, on the foundation of intelligence, wealth, and well-directed industry.

Consistently with security, and indeed founded upon it, credit becomes the great agent of exchange. It increases consumption by anticipating products, and supplies present wants out of future means. As it circulates commodities without the actual use of gold and silver, it not only saves much by doing away with the constant transportation of the precious metal from place to place, but also accomplishes exchanges with a degree of dispatch and punctuality not otherwise to be attained.

All bills of exchange, all notes running upon time, as well as the paper circulation of the banks, belong to the system of commercial credit. They are parts of one great whole. We should protect this system with increasing watchfulness, taking care, on the one hand, to give it full and fair play, and, on the other, to guard it against dangerous excess.

Approximately three years after the above address was made, and soon after the disastrous panic of 1837, President Martin Van Buren, in a message to Congress, said:

The various transactions which bear the name of domestic exchanges differ essentially in their nature, operation, and utility. One class of them consists of bills of exchange drawn for the purpose of transferring actual capital from one part of the country to another, or to anticipate the proceeds of property actually transmitted. Bills of this description are highly useful in the movements of trade and well deserve all the encouragement which can rightfully be given to them.

Reasons Tending to Cause Disuse of Acceptances since the Civil War.—The elimination of the Bank of the United States; the growth of wildcat banks, which sprang up at the time; the disruption of credits by war; and the formation of post-war conditions, all practically killed the market for discounting or handling the acceptance. This unsettled condition of business at that time made open account credits very risky and tended to build up a system of high discounts for cash payment, which, together with

open-account credits and one-name paper for discount purposes, has since remained the prevailing custom.

The National Bank Act created a stable currency, based on the credit of the government, in the form of bonds and gold, which, although a solid foundation, was a very inelastic one, and this act furnished no proper rediscount facilities or open market for discounts.

Although no European nation has, for many years, used a similar national method of credit and discount, this situation endured in the United States until the passage of the Federal Reserve Act in December, 1913, the organization of the Federal Reserve Board and Federal Reserve Banks, and the opening of the latter on November 16, 1914.

Timely Passage of the Federal Reserve Act.—Although currency and financial reform had long been recognized as a crying need of the country and had been debated and studied by Congress after Congress, those who saw its necessity for the nation made slow progress in overcoming the inertia and prejudice of the uninformed laymen in Congress. Nevertheless, the studies and labors of the Congressional commission headed by Senator Nelson A. Aldrich of Rhode Island were of inestimable value in developing the basic principles of the Owen-Glass bill as finally formulated and introduced by its sponsors. To many it has seemed almost providential that this great reform measure, the Federal Reserve Act, with its machinery of almost unlimited power of expansion, was put on the statute books and into operation practically coincidentally with the inauguration of what became not only the world's greatest war, but the cause of the most gigantic financial operations of all history. That America was able to uphold, during all the war, her prestige as a commercial nation and to add to the laurels of financing her own great war operations those of furnishing cash and credit to the confirmed lender nations is an accomplishment for

which we may feel not only just pride, but sincere thankfulness.

That the reform of our commercial credit and discount systems was meant to be a highly important and serious function of the Federal Reserve Act is something that should be kept clearly in mind by the bankers and business men of the land. The use or disuse of the privileges and plans for acceptances, as laid down in this Act, is something that may mean much to our nation and its commerce for generations to come. It is, therefore, very important that American business men should study the regulations of the Federal Reserve Board, not so much from the academic point of view as from the standpoint from which each business man can best judge the extent to which they may be adapted to and adopted in his business. This was the evident intention of the framers of the law, and the interpretation thereof is to be found in the simple and practical definition and explanation of acceptances by the Federal Reserve Board.

Reëstablishment of the Trade Acceptance under the Federal Reserve Act.—Although circulars of the Federal Reserve Board of November 16, 1914, and April 2, 1915, outlined special privileges and discount rates to be enjoyed by acceptances, the "trade acceptance" as such, with its full scope and power defined, was first launched fully and an unlimited field for rediscount of domestic acceptances created by the Federal Reserve Board, as outlined in their circular, dated July 15, 1915. This lucid and official recommendation should go a long way toward commending the trade acceptance to the study and use of the bankers, manufacturers, and merchants of the United States.

Scope and Form Outlined by Federal Reserve Board Ruling.—Here is quoted in full the ruling of the Federal Reserve Board which served to reintroduce the acceptance into the American business world:

FEDERAL RESERVE BOARD,
WASHINGTON, *July* 15, 1915.

Bills of exchange drawn against sales of goods and accepted by purchasers, hereinafter referred to as trade acceptances.

By Regulation B, Series of 1915, the Board has prescribed the conditions upon which commercial paper may be rediscounted with Federal Reserve Banks, and, by Regulation J, Series of 1915, rules have been promulgated covering operations in bankers' acceptances. The attached regulation is to deal with "trade acceptances" as a distinct class of commercial paper, for which the Board is ready to approve the establishment of a discount rate somewhat lower than that applicable to other commercial paper.

These trade acceptances are more particularly defined in the appended Regulation P, Series of 1915, and in promulgating it the Board expresses the belief that it will considerably enlarge the scope of service of Federal Reserve Banks, and, incidentally, assist in developing a class of double-name paper which has shown itself in so many countries a desirable form of investment and an important factor in modern commercial banking systems.

H. PARKER WILLIS, *Secretary..*
CHARLES S. HAMLIN, *Governor.*

* * * *

REGULATION P. Series of 1915.

WASHINGTON, *July* 15, 1915.

Bills of exchange drawn against sales of goods and accepted by purchasers, hereinafter referred to as "trade acceptances."

I

DEFINITION

In this regulation the term "trade acceptance" is defined as a bill of exchange of the character hereinafter described, drawn to order, having a definite maturity and payable in dollars in the United States, the obligation to pay which has been accepted by an acknowledgment, written or stamped, and signed across the face of the instrument by the company, firm or corporation, or person upon whom it is drawn, such agreement to be to the

effect that the acceptor will pay at maturity, according to its tenor, such draft or bill without qualifying conditions.

II

Character of Paper Eligible

A trade acceptance, to be eligible for rediscount, under section 13, with a Federal Reserve Bank at the rate to be established for trade acceptances—

(*a*) Must be endorsed by a member bank, accompanied by waiver of demand notice and protest;

(*b*) Must have a maturity at the time of discount of not more than 90 days;

(*c*) Must be accepted by the purchaser of goods sold to him by the drawer of the bill, and the bill must have been drawn against indebtedness expressly incurred by the acceptor in the purchase of such goods.

III

Method of Certifying Eligibility

A trade acceptance must bear on its face, or be accompanied by, evidence in form satisfactory to the Federal Reserve Bank, that it is drawn by the seller of the goods on the purchaser of such goods. Such evidence may consist of a certificate on or accompanying the acceptance, to the following effect: "The obligation of the acceptor of this bill arises out of the purchase of goods from the drawer." Such certificate may be accepted by the Federal Reserve Bank as sufficient evidence; provided, however, that the Federal Reserve Bank, in its discretion, may inquire into the exact nature of the transaction underlying the acceptance.

H. Parker Willis, *Secretary.*
Charles S. Hamlin, *Governor.*

Attractiveness to the Banker and Business Man.—The rulings practically make trade acceptances eligible to an unlimited amount for rediscount for member banks by Fed-

eral Reserve Banks: again showing the high esteem in which they are held under the law. The whole ruling is evidently intended to foster the generous use of the acceptance, and is an encouragement to all member banks and their depositors to use them freely.

There seems to have been no hesitation or equivocation by the Federal Reserve Board in doing its full share in defining the law and methods of proper procedure—indeed, it has been most generous and assiduous in the attention given to the subject.

Although the bankers of the country cannot create trade acceptances, they can do much to further the purpose of the Government by encouraging their proper use by their depositors, the manufacturers and wholesale and retail merchants of the country, upon whose initiative or inaction rests the ultimate outcome of this important movement to liquefy American business credits.

CHAPTER V

HOW TO INSTALL TRADE ACCEPTANCES IN A WHOLESALE BUSINESS

The first step taken by a firm, preliminary to introducing trade acceptances to its customers, is to determine upon what terms it will issue them. The method of putting out will largely depend upon this decision.

Every firm must consider its own terms, relations with customers, and general conditions, but, as pointed out in other chapters, this consideration should not be in any sense one-sided; in fact, the firm should put the customer's interest and attitude of mind first, and its own second. In doing so it may be found that the "last shall be first" indeed, and the greatest benefit may eventually accrue to the seller through generous treatment of the buyer.

It has been found necessary to analyze the customer's attitude of mind toward the buyer's house and goods and decide whether he is *obliged* to have its goods. Also, whether he must have *all* he buys *from it now on open account*. This same angle in regard to new customers whom the firm will solicit must also be carefully considered.

In this analysis, the fact should not be overlooked that the signing of the first acceptance by a buyer is a radical departure for him, and a step which he will probably not take unless he feels that he cannot well afford to refuse in order to either get the goods, keep the good-will of the house, or obtain better terms, if a concession is offered him. His attitude and action in the matter will naturally influence the procedure.

Will the Customer Be Given the Vote?—If the seller decides on a plan which he surely feels will induce buyers to sign a trade acceptance, the next decision is whether he should insist on the trade-acceptance terms, or whether it will be more politic to use the democratic method of giving customers the "vote," yet so placing before them the benefits of the trade acceptance that the majority will vote to accept it.

By giving the customer the choice and making it attractive, he will probably be more apt to "accept," than if he feels the seller desires to force on him new and possibly unattractive terms. If a buyer is able to do without the seller's goods, then it is not advantageous and, sometimes, impossible to insist on trade acceptance terms. However, proper letters and explanations by salesmen may enable the seller to collect by trade acceptances, even though the buyer is at first averse to them and the seller's competitors do not use them.

If it appears that the buyer's acceptance is doubtful, in spite of all persuasion and persistence brought to bear, some sellers carefully consider what is the least concession that can be made to get the *big majority* of customers to sign trade acceptances and *be glad to do so*. Chapter XII analyzes this phase of the problem in detail.

Each factor should be weighed as carefully by a seller as if he were putting out a new piece of goods, in order to ascertain if his sales department or salesmen are penalized by the loss of time or orders in selling on trade-acceptance terms, with no choice to buyer. If there is such a result, it has occasionally been found necessary to give, temporarily at least, inducement sufficient to sell the trade acceptance itself, just as extra dating or a shade lower price is sometimes given to introduce a new line.

Special terms and explanatory circulars have for their purpose the quicker adoption of the trade acceptance, and

may only be necessary until the system is well established. In countries where acceptances are well known and established, explanations and inducements would not be necessary; in fact, in such lands the seller demands acceptances and in most cases the buyer expects to give them.

Differing Terms for Various Trades or Localities.—Since terms differ in almost every trade or locality, the seller or an expert should analyze and adapt them according to the principles and suggestions outlined in this book, until the trade-acceptance terms best suited to his individual case have been arrived at. It is especially important to start with the terms as near to one hundred per cent as possible, because it has been found that those who started with "half way," or compromise, terms had to change them to get results.

After deciding whether he will put out trade acceptances on the same time as that given on open account, or whether he will offer an inducement to accept, the seller will be able to adjust accordingly the details of handling the acceptances.

Plans of Issuing and Explaining Trade Acceptances.—If all credit settlements are to be by trade acceptance, and if the terms offered on trade acceptances are the same as on open account, it will only be necessary to make out a trade acceptance for the face value of invoice, or statement, and forward it with the invoice to the buyer. Since the trade acceptance is a credit instrument, it in no way affects cash terms.

It has been found that the greater percentage of trade acceptances are accepted by customers if, when the first acceptance is sent to them, the matter is carefully and graphically explained and they are shown the advantages for them in their acceptance of it.

There are several ways to introduce the trade acceptance and firms in various lines of business use different

methods. Some firms issue either explanatory memoranda attached to the acceptances, letters, or booklets, and send them to the customers. Explanatory booklets have been issued by the Federal Reserve Banks, bankers, the Acceptance Councils, and by associations and firms aiming to enlighten both buyer and seller on the subject and procedure of trade acceptances. Care should be taken not to use booklets which appeal to the banker or seller rather than the customer, or which endeavor to cover all phases and are of a rather negative value to the general trade.

What is needed in a selling campaign are data interesting to the person appealed to, and other phases need not be covered. Propaganda or explanation (similar to that in the chapters in Part III of this volume) has been found to appeal directly to the buyer who accepts, rather than to constitute an academic discussion of the merits of the trade-acceptance plan.

Speak to the Customer in His Own Language.—In making trade-acceptance plans, it has been found necessary to consider the kind of *financial intelligence* possessed by the *customers* whom it is desired to interest. It is not often found feasible to try to sell the trade acceptance by an academic treatise which, although entirely clear and convincing to its maker, may go entirely over the head of the *one* (the buyer) who must be convinced and made to understand before he will sign the acceptance.

By investigation it is found that one reason why a credit department sometimes has misunderstandings with the merchant is that it does not speak the same language and it takes a "traveler" to smooth out the "sore spots." It has been found advantageous to submit the firm's trade-acceptance literature to the sales manager or salesmen, as well as the advertising manager, to obtain their criticism before "trying it on the dog."

Does the dog know? This question of the customer's

understanding of what the seller is driving at reminds one of the well-worn story of the tramp and the professor and his dog. The professor asked: "Why do you fear the dog? You know that a barking dog does not bite," and the tramp replied, "Yes, *I* know it and *you* know it, but does the *dog* know it?" The moral is: it is well to be sure that the *buyer knows* what a trade acceptance is, that it is good, and that it will not "bite," so that he will not fear it and, therefore, not shun it.

The letter, request, or explanation attached to the acceptance form should play up special reasons why customers should sign and return the acceptance.

A half-hearted selling campaign for any kind of merchandise has never been successful, nor has a half-hearted selling campaign for trade acceptances ever resulted in having all possible acceptances accepted and returned: therefore, the "propaganda" must be intensive and persuasive.

Methods Used by Various Firms.—A well-established manufacturer, in putting out the trade acceptance, made the length of time on his trade acceptance optional with his bookkeeping department, letting it range upward from a few days, in which case the trade acceptance became due five days or more after the net terms of the bill. Experience proved that this method was not positive enough to draw a large number of acceptances.

A credit manager of a prominent jobbing firm states, "I so word the explanatory slip attached to the acceptance that it will bring one objection from the buyer at once, and I can explain away such objection."

Another credit manager of a manufacturing concern with world-wide connections said: "I put the word 'draft' three times in my explanatory memo. attached to trade acceptance, for although the word 'draft' may not be liked, I believed the buyer has been entirely too much catered

to." The term "trade acceptance" was substituted in their later forms.

Results may be obtained, even by such negative methods, if a house is strong enough, but each firm should judge its own position with its customers and act accordingly. Many big and little firms state that they prefer not to take the chance of prejudicing their customers against the new credit plan, especially if some are only occasional customers, and so cannot be educated by a long series of sales letters, salesmen's calls, etc. Such firms use attractive explanations or even inducements.

The details as to forms, letters to customers and salesmen, instructions to the accounting, sales, and publicity departments, etc., should be carefully prepared, considered, and then reconsidered from every angle.

In Chapter IX of this book, sample forms, letters and instructions are fully given, with explanations of them which can be modified to suit the need of each individual trade or firm. As already explained, the personal touch in all these details is very advantageous, yet great care must be exercised not to depart from the proven and legal forms and methods, similar to those outlined in this volume. For it should be realized that each acceptance is a financial instrument which must pass through the banks and may, in its handling, serve as the basis of the currency of our country.

Every Department Has Its Part.—In addition to giving letters of instructions to the salesmen employed when first putting the plan into effect or to others who are later engaged, it is very desirable to have the salesmen go over the trade-acceptance terms, plans, and procedure thoroughly with the financial as well as the sales department, either singly or in meetings, so as to have them thoroughly "sold" on the trade-acceptance terms of the firm and anxious to have their customers "take advantage" of them.

As detailed in Chapter VIII, on correct accounting methods, conditions will dictate whether trade acceptances should be made out to cover each invoice and sent therewith, or whether they should be made and sent out periodically on the first of the month with the statements for shipments of the previous month. The bookkeeping department should study the procedure from an accounting standpoint, so that it may manage the books to handle acceptances without error or hitch.

Furthermore, it is equally necessary that the treasury department understand the financial and banking aspects of acceptances, and the most approved procedure for the advantageous and economical handling of acceptances after they are received. The details as to correct methods of collection or discount, as outlined in subsequent chapters on these subjects, should be thoroughly familiar to this department.

All details in connection with this new credit plan should be properly arranged to function with the greatest success, for a half-baked or makeshift plan will not produce the best results.

CHAPTER VI

SIMPLE TRADE-ACCEPTANCE METHODS, TERMS AND FORMS

Information as to Terms.—Since an understanding of terms is as important as an understanding of the prices of the goods themselves, it has been found expedient to have all new terms written out completely for sales and credit manuals, and copies sent to all salesmen and men handling such terms in any way. When trade-acceptance terms are the same as the open terms, it will only be necessary to state this and also that a trade acceptance will accompany each invoice or statement of amount decided upon. If trade acceptances are made out for the same length of time that is given on open accounts, but subject to a special discount for signing, this can be simply stated. If extra time, or time and discount, is given for signing a trade acceptance, this also should be stated as simply as possible, but in full, so that no error or misunderstanding may occur.

It is found desirable to have general terms written out in full, and, when they are diverse in various lines, to cover the lines separately. From these the trade-acceptance terms can be worked out and added to cash and open terms, if they vary therefrom. General terms vary, of course, but they may be summarized in a form similar to the following, covering all possible phases of acceptance terms, including extra time, discount, freight allowance, etc.; these illustrate the method adopted by one group of manufacturers; *they are in no way quoted as model terms, for use by others:*

Regular 2% for cash 10th of month following date of shipment.

½ of 1% for trade acceptance due 60 days from first of month after date of shipment.

Net 60 days from date of shipment.

Datings only on *bona fide* stock orders shipped in January, February, or March—dated April 1st.

In June, July, or August—dated September 1st.

Trade acceptance to be signed by buyer when order is filled or shipped on all dated shipments. Where it is desired to take cash discount on dated bills, if check to cover invoice, less cash discount, is sent within 10 days of dating date, seller will return buyer's signed acceptance or seller's check to cover.

Dating Terms 2% cash 10 days after dating date.

½ of 1% trade acceptance due 60 days after dating date.

Net 60 days after dating date.

Freight.—Freight is allowed to buyer if bill is paid when due; that is, discounted for cash, paid by trade acceptance, or on net open account terms.

Terms as Stated in Detail by an Association of Manufacturers.—As stated, instructions in terms should vary as the terms vary from those given in the foregoing illustration. It is desirable that the financial department, including the credit manager and those who will handle correspondence on this subject, should thoroughly understand the advantages and terms of the firm's trade acceptances.

In addition to the foregoing explanation of terms it is advisable to send a circular letter of instruction to various interested departments to guide them in their proper procedure.

The following is taken from a form adopted by a manufacturers' association, covering quite diversified terms, a copy of which was sent to every member of the organization whom it was desirable to post. After stating their terms as in foregoing circular, they said:

Terms on trade acceptance will be 60 days from first of month following date of invoice and ½ of 1% for signing and returning trade acceptance within 10 days of shipment.

If trade acceptance is not signed and returned in 10 days, the

account will be treated as a regular open account and handled accordingly.

It will be understood that the regular cash discount terms of the bill will apply if a customer wishes to discount the account (by the 10th of the month following) and he will take off his regular 2% and return unsigned, or disregard, trade acceptance attached to the invoice or statement.

Where there has been a special extension of time or datings, the same conditions will prevail on open accounts and those closed by trade acceptance; that is, both will be due 60 days after date of dating and ½ of 1% will be deducted from trade acceptance for signing and returning it at time of shipment.

Freight allowance will be made for payment as per terms, viz: where paid freight receipt is forwarded to us it may be deducted when account is paid for cash, by 10th of month following shipment, or when remitting within 60 days from date of shipment.

Where trade acceptance is signed, the buyer should send the paid freight receipt to us and we will send him our check to cover same in full.

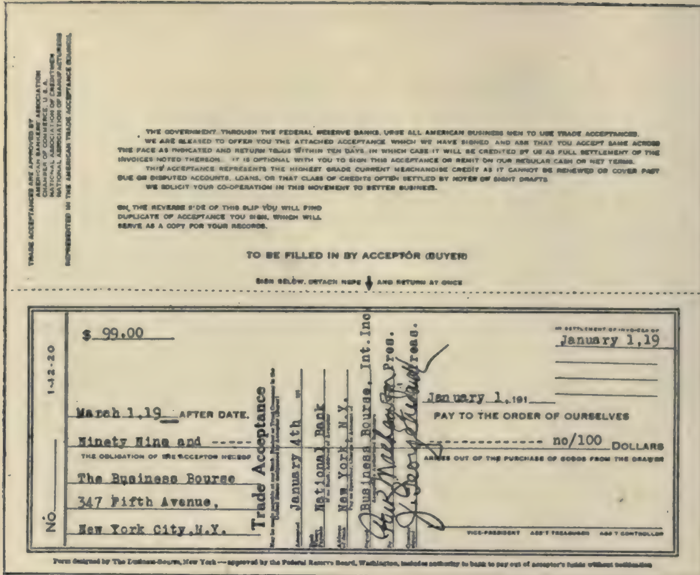
Our special terms on trade acceptances will be exploited as a special inducement to customers, and, where possible, will be used to benefit the sales department, through correspondence, or through the salesmen, as a special offering of benefit to the customers, and they should be viewed and handled from this angle.

It is not necessary for the customer to accept the trade acceptance. It is entirely optional, but it will be to his benefit, and will also be to our benefit and, therefore, it is our policy to educate the salesman and the customer as to its benefits, and get as many customers to accept same as possible, which will be best accomplished by persistent efforts by all departments.

It will be evident also where a customer might order less than $25.00 worth of goods, that, in some cases, by showing him the benefit of the special terms for ordering $25.00 worth or more (to come within the limit of the trade acceptance), it will result in increasing the size of the order.

It is legal to make a trade acceptance for as long a period as desired, but this shall be done only in cases where it is desirable to get the order in larger quantity by longer terms, or for some other sufficient reason, and such terms must first be submitted to and approved by the company.

We have decided to give an extra benefit to our customers



THE GOVERNMENT THROUGH THE FEDERAL RESERVE BANKS, URGE ALL AMERICAN BUSINESS MEN TO USE TRADE ACCEPTANCES.

WE ARE PLEASED TO OFFER YOU THE ATTACHED ACCEPTANCE WHICH WE HAVE SIGNED AND ASK THAT YOU ACCEPT SAME ACROSS THE FACE AS INDICATED AND RETURN TO US WITHIN TEN DAYS IN WHICH CASE IT WILL BE CREDITED BY US AS FULL SETTLEMENT OF THE INVOICES NOTED THEREON. IT IS OPTIONAL WITH YOU TO SIGN THIS ACCEPTANCE OR REMIT ON OUR REGULAR CASH OR NET TERMS.

THIS ACCEPTANCE REPRESENTS THE HIGHEST GRADE CURRENT MERCHANDISE CREDIT AS IT CANNOT BE RENEWED OR COVER PAST DUE OR DISPUTED ACCOUNTS, LOANS, OR THAT CLASS OF CREDITS OFTEN SETTLED BY NOTES OR SIGHT DRAFTS.

WE SOLICIT YOUR CO-OPERATION IN THIS MOVEMENT TO BETTER BUSINESS.

ON THE REVERSE SIDE OF THIS SLIP YOU WILL FIND DUPLICATE OF ACCEPTANCE YOU SIGN, WHICH WILL SERVE AS A COPY FOR YOUR RECORDS.

TO BE FILLED IN BY ACCEPTOR (BUYER)

SIGN BELOW, DETACH HERE AND RETURN AT ONCE

$ 99.00

March 1,19 AFTER DATE. January 1, 191

PAY TO THE ORDER OF OURSELVES

Ninety Nine and ----- ---------- no/100 DOLLARS

The Business Bourse

347 Fifth Avenue,

New York City, N.Y.

Trade Acceptance

January 4th

National Bank

New York, N.Y.

Business Bourse, Int. Inc.

Pres.

Treas.

January 1,19

NO.

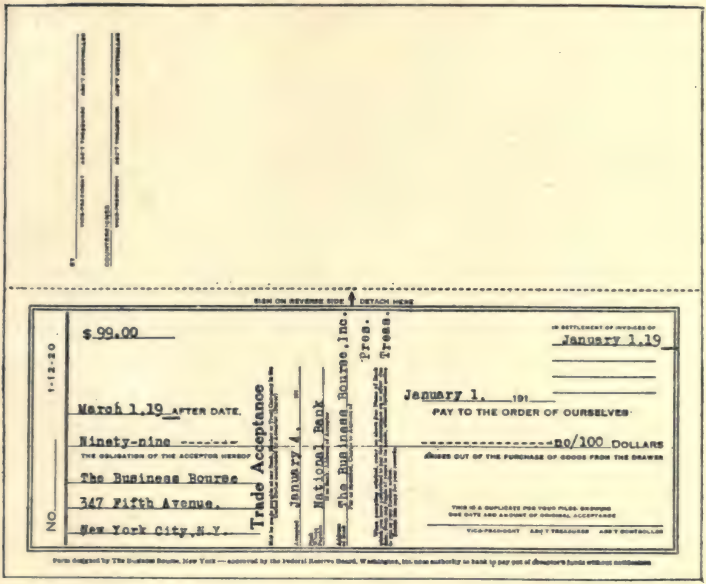
FIGURE 9. TRADE ACCEPTANCE FORM FILLED IN FOR ACCEPTANCE BY BUYER

to encourage the general use of this admirable method of settlement of accounts. However, we offer the special terms for trade acceptance subject to withdrawal or modification by the company should conditions change or seem to warrant such an action. We hope you will use every effort to forward trade acceptances as a company policy.

(Signed) COMPANY.

All forms should be carefully modified as to best suit the *terms* and policies of the seller.

Point on Printing Trade-Acceptance Forms.—In printing acceptance forms, the firm's name should be omitted on a certain number of acceptances which may be used for the firm's own purchases, when it is desirable and sellers


SIGN ON REVERSE SIDE ↑ DETACH HERE

NO
1-12-20
$ 99.00
March 1,19 AFTER DATE.
Ninety-nine
THE OBLIGATION OF THE ACCEPTOR HEREOF
The Business Bourse
347 Fifth Avenue,
New York City, N.Y.
Trade Acceptance
January 4
National Bank
The Business Bourse, Inc.
Pres.
Treas.
IN SETTLEMENT OF INVOICES OF
January 1,19
January 1, 191
PAY TO THE ORDER OF OURSELVES
no/100 DOLLARS
ARISES OUT OF THE PURCHASE OF GOODS FROM THE DRAWER

FIGURE 10. REVERSE OF FORM SHOWN IN FIGURE 9 FILLED IN FOR ACCEPTOR'S RECORD

agree to it. Since a firm usually sends out a large number of acceptances, a percentage of which are not returned, it is well to consider whether "safety" paper is necessary or desirable in the printing of acceptances. It is certainly proper and impressive. The need for safety paper or devices that exists in the case of checks, to prevent alteration, is not applicable in the usual handling of the acceptance.

For instance, when an acceptance is sent by the drawer to the acceptor, the amount is checked up by the buyer before accepting and he then returns it directly to the drawer. The drawer, after crediting it to the acceptor, usually turns it over for discount or collection directly to his bank, which, in turn, sends it through banking channels

to the place where it is to be paid by the acceptor (his bank or place of business).

During this routine the only persons who have an opportunity to change the acceptance, unless lost in transit, are the buyer, the seller, or their banks. This contingency, in the usual course of business, need hardly be considered as probable. If the buyer raised the amount of the acceptance, he would have to pay it; if he lowered it, it would not cover the charge. If any danger is present, it exists for the buyer, through the possibility of the seller's raising the amount of the acceptance after he receives it back from the buyer. If the buyer should fear such an outcome, he could indorse on the acceptance, in some safety form, the amount he was accepting for. It will be understood that a trade acceptance is not negotiable until received back by the drawer and indorsed by him.

The possible chance of loss to the maker (seller) through change, at least under present conditions, is so negligible as hardly to warrant the extra expense of printing the acceptances on safety paper, when they are sent out in large quantities.

However, as in Europe, when acceptances are handled and sold through the open discount market, and are likely to pass through many hands, it may be desirable to use conservative methods to obviate any chances of alteration and the consequent responsibility upon those whose names appear on the acceptance.

Standard Forms.—Although individual taste may prevail in the set-up, or typography, of acceptance forms, it will be best not to depart radically from standard forms, such as reproduced in Chapter I, or other forms that have been carefully tested. The legal requirements, covering the negotiable instrument laws of all states, as well as other banking laws and usages, have been carefully complied with in the acceptance forms in Chapter I, and these

forms have been specifically approved by the Federal Reserve Board.

As suggested, when it is desired to pay bills with a trade acceptance, a form can be filled out and forwarded to the seller, as in Figures 9 and 10. If the seller elects to use the acceptance, it will pay the bill. If he does not care to use it, he will return it to the maker and advise him to remit on regular terms.

Trade-Acceptance Register.—The trade-acceptance register may be printed on any size or quality of paper most convenient to the firm's use. Since it is usually kept as a memorandum account, it may be printed on regulation-size punched sheets and kept in regular books or separate binder. Sheets for the seller's record and the buyer's record are the same.

CHAPTER VII

SATISFACTORY METHODS OF RECORDING TRADE ACCEPTANCES AND CHECKING UP RESULTS

Trade-Acceptance Records.—The seller, when sending out trade acceptances to his customers, may make a more or less complete record, as his bookkeeping department chooses. It is not essential to keep a record of the acceptances sent out, because they are of no value unless they are accepted and returned. Therefore, when it is preferred, no permanent record need be kept, until the acceptance is returned, legally "accepted" by the buyer. However, those using a duplicate acceptance form, similar to that illustrated in Chapter II, can employ it without modification, to furnish either one copy or as many copies as the user may need for his records.

It will be noted that by the seller's merely folding the acceptance (Figure No. 3) and placing a carbon therein, before filling in, a copy is made for the buyer, who can retain it and have all the details of the transaction, except the place where payable, which latter information he can note thereon when he accepts the original. If another copy of the same acceptance blank is placed back of the original, one or two more full records of the acceptance can be obtained by placing one or two carbons therein. As many copies as desired can be made by the seller for use as records.

Later in this chapter a handy form of trade-acceptance record for both buyer and seller is shown in Figures 11 and 12. The size of the original is 8½ inches by 11 inches.

Since a considerable percentage of acceptances sent out are not returned, a simple form of handling is usually desirable.

Complete Record of All "Accepted" Items.—When acceptances are returned "accepted," an entry may be made on a "register" as shown in Figure 11 of this chapter. As this register is in the nature of a memorandum, entry may be made from the total of each page (or of each trade acceptance) in the books under "Acceptances Receivable," which account is handled in practically the same manner as "Notes Receivable." Other necessary postings are obvious.

It has been found that when trade acceptances go to those who are not familiar with the most approved method of handling them, and because trade acceptances are not entered in the bank records as checks are, such customers sometimes overlook making arrangements for funds to pay the acceptance when it is due, or presented for collection at their bank, or at their place of business. It has been found desirable to acquaint such customers with the usual form of keeping the record of the trade acceptance, so that they will make their arrangements accordingly and be less liable to overlook the time of payment.

Methods of Informing Customers.—The following are two diplomatic ways of doing this; in fact, it is preferable to use both.

1. *Standard Register.*—When the acceptor returns the first acceptance, the register form may be used, filling in the customer's name and entering the details of the acceptance he has returned, according to the form outlined for the buyer in Figure 11 of this chapter. This register is sent to him, with the recommendation that he keep his records on this sheet, or in a similar manner, covering all acceptances he accepts from any source.

2. *Standard Carbon Duplicate.*—The second plan is fur-

nished by the complete carbon copy of the trade acceptance on the reverse side of Standard Form, Figure No. 3, in duplicate, with the same serial number, which is made out at same time as the original. When he accepts the original, the acceptor tears off and retains the duplicate for his records, and he can then make any records therefrom that he prefers. He may use the duplicate as a voucher copy or check stub, or he may put it in the tickler for handling at due-date.

By making another carbon copy of the original, as already explained, a copy for seller's files is had, and, if desired, another copy can be made for the tickler, bearing the same serial numbers as the original.

If a record of all acceptances sent out is desired by the seller, probably the most satisfactory plan is to file the third copy numerically, as it can be easily found through the record in the accepted register, made out when acceptances are returned. It will also be noted in the ledger, or elsewhere, that a trade acceptance has been received, when entry of payment of the account by trade acceptance is made.

If it is preferred, this third copy can be filed alphabetically, by the customer's name, or otherwise. The fourth copy of the acceptance can serve the following several purposes: When an acceptance is being sent to a customer for the first time, or to a customer who has never before accepted, this copy can be checked at the figure 1 (note figure "1-12-20" on left-hand end of the Standard Form, Figure 3), which denotes it as a first series and the follow-up letters are sent accordingly. The first letter contains the invoice and acceptance; the second letter follows 12 days after sending the acceptance, and the third letter is forwarded 20 days after sending the acceptance. When the cash discount time is more than 10 days, the second letter should be sent 2 days after the cash discount period

expires and the third letter should be sent 8 days thereafter.

If it is desired to bring up these dates for letters by tickler, the fourth copy of the acceptance can be put in the tickler file and, when letters are sent, the "1-12-20" figures can be checked, showing:

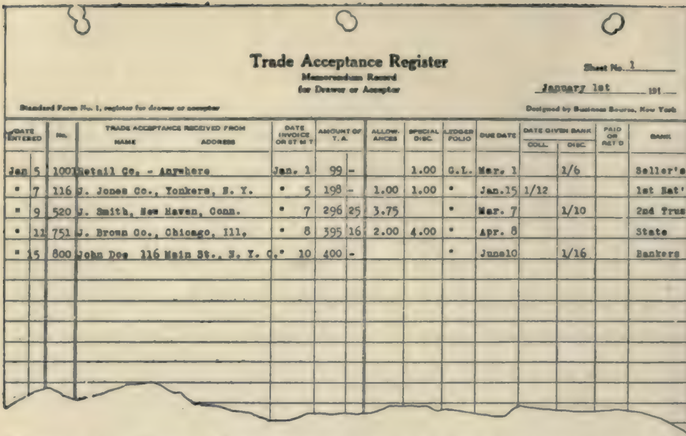
√ 1. First letter sent. √ 12. Second letter sent. √ 20. Third letter sent.

If the trade acceptance is accepted and returned, the fourth copy can be filed for follow-up (with all or a certain class of customers) and sent as a notice to the buyer long enough before the due date for him to arrange for funds for its payment, as suggested to him by the red imprint on the duplicates.

Although when properly handled, no records will be needed for keeping track of the acceptance for the seller or the buyer or for notifying the latter other than the original and carbon copies of the Standard Form, Figure 3, trade acceptance, yet, as noted, more satisfactory and complete auditing, bookkeeping, and follow-up records can be made for both the buyer and the seller by the use of some form of trade-acceptance register.

Standard Form Trade-Acceptance Register.—The bookkeeping department of either the drawer or the acceptor will readily follow the method of registering trade acceptances as received back by the drawer (seller) or given by the acceptor (buyer), by noting the Standard Form Register Sheet, Figures 11 and 12, which is interchangeable for records of both the seller and the buyer, without modification, unless changes in details are desired for special bookkeeping entries.

When a seller accepts trade acceptances sent him by those from whom he buys, it is obvious that he will also use the register form as a "buyer." The seller records his accept-



Trade Acceptance Register
Memorandum Record
for Drawer or Acceptor

Sheet No. 1
January 1st 191__

Standard Form No. 1, register for drawer or acceptor
Designed by Business Bourse, New York

Date Entered		No.	Trade Acceptance Received From Name Address	Date Invoice or St'm't	Amount of T. A.		Allowances	Special Disc.	Ledger Folio	Due Date	Date Given Bank Coll.	Disc.	Paid or Ret'd	Bank
Jan	5	100	Retail Co. - Anywhere	Jan. 1	99	-		1.00	G.L.	Mar. 1		1/6		Seller's
"	7	116	J. Jones Co., Yonkers, N. Y.	" 5	198	-	1.00	1.00	"	Jan.15	1/12			1st Nat'l
"	9	520	J. Smith, New Haven, Conn.	" 7	296	25	3.75		"	Mar. 7		1/10		2nd Trust
"	12	751	J. Brown Co., Chicago, Ill.	" 8	395	16	2.00	4.00	"	Apr. 8				State
"	15	800	John Doe 116 Main St., N. Y. C.	" 10	400	-			"	June10		1/16		Bankers

FIGURE 11. TRADE ACCEPTANCE REGISTER FOR DRAWER (SELLER)

ances received back accepted as shown on copy of register No. 1 for "seller" (Figure 11), filled out as follows:

Column

1.—Date of entry in the register

2.—Enter serial number of trade acceptance received back accepted

3.—Name and address of acceptor from whom received

4.—Date of seller's invoice or statement covered (trade acceptance bears same date)

5.—Amount of trade acceptance in dollars

6.—Any allowances deducted from amount of invoice (such as freight)

7.—Special discount, if any, given for signing acceptance or any other purpose. (Total of columns 5, 6, and 7 should equal amount of invoice)

8.—Where posted (when posting is done)

9.—Due date of trade acceptance for collection

10 and 11.—Enter date that drawer puts acceptance in bank for collection, or for discount, as the case may be

12.—Enter date that acceptance is either paid or returned (in case it is not paid)

13.—Enter name of bank where seller (drawer) has placed acceptance for collection or discount

Trade Acceptance Register
Memorandum Record
for Drawer or Acceptor

Sheet No. 1
January 1st 191__

Standard Form No. 1, register for drawer or acceptor

Designed by Business Bourse, New York

Date Entered		No.	Trade Acceptance Received From: Name	Address	Date Invoice or St'm't	Amount of T. A.		Allowances	Special Disc.	Ledger Folio	Due Date	Date Given Bank: Coll.	Disc.	Paid or Ret'd	Bank
Jan.	5	1001	Business Bourse	347-5 Ave. N.Y.	1/1	$99	-		1.00		Mar. 1		1/8		Buyer's
"	7	102	John Smith & Co.	Boston, Mass.	1/5	148	50		1.50		Jan.15	1/10			1st Nat'l
"	9	687	J. Brown Co.	Brooklyn, N. Y.	1/8	198	00	2.00			Apr. 8		1/10		1st Trust
"	11	516	Auto Sales Co.	Newark, N. J.	1/7	297	-	1.00	2.00		Feb. 7				State
"	13	1016	Grocery Co.,	Philadelphia, Pa.	1/10	400	-				June10		1/20		Banking C

FIGURE 12. TRADE ACCEPTANCE REGISTER FOR ACCEPTOR (BUYER)

Note:—If it is desired to keep the amount deducted or the cost of discount or collection in connection with each acceptance (as noted in the foreign forms of register shown in Chapter III), a special column may be arranged to suit these needs; otherwise, discounts and collection charges are handled in the regular accounts. Posting may be done on each transaction, or in groups, as the accounting department may prefer.

Furnishing Buyers with Registers.—The sheet containing the entry for the first acceptance a buyer "accepts" may be prepared and sent him as per copy "sent to buyer," Figure 12.

On the register sheet sent to the buyer there should be entered the data to cover the first acceptance accepted by him (see Figure 12) as follows:

Column

1.—(Leave blank for his entry date)
2.—Serial number of acceptance
3.—Seller's firm name and address
4.—Date of seller's invoice or statement covered by trade acceptance returned
5.—Amount of seller's trade acceptance

6.—Amount of any allowance made to him
7.—Special discount, if any, given for signing acceptance or any other purpose
8.—(Leave it blank for him to fill in posting)
9.—Date trade acceptance will be presented for collection
10.—Blank
11.—Blank
12.—Blank
13.—Enter name of buyer's bank where acceptance is payable

Varying Forms of Registers for Acceptance Records.—There is no set form of register to record acceptances, because the style used is one entirely according to the drawer's or acceptor's desire. Many firms have used their regular record form for bills receivable or payable for this purpose, as the case warrants. Others have designed special registers for their acceptances.

The most important point to consider in installing a system is to make it broad enough to cover an adequate and simple method of complete records, keeping in mind the needs of the system in future, when the number of acceptances may increase. It is believed that the Standard Form of acceptance register, Figure 11, fully covers all necessary records for either the smallest or largest number of acceptances received in the most simple and complete form.

Another form of register which is easily adapted and used (especially by firms who do not expect to handle a large number of acceptances) is a modification of the Standard Form, Figure 11. The sole variation is that, in place of the one column covering the due date, 12 columns, one for each month, are used, but otherwise the register is the same as the Standard Form, Figure 11, except for size, which in this instance is $8\frac{1}{2}$ inches by 14 inches or more.

The only difference in entry is that, instead of entering the *month* and *date* upon which the acceptance will become

due in the column headed "due date," in Figure 11, the *date* is entered only as "3" (third) in the column of the month during which the acceptance becomes due. By this system the due dates of acceptances coming due in each month may be noted by running up the column for such month. This plan obviates the necessity of relying on a due date file of acceptances to keep track of those coming due. However, it will be necessary to keep the acceptances filed as to the dates upon which they will become due.

It should be noted that in using this latter form great care will be necessary in entering each acceptance, so that the due date is entered on the same line and in the correct monthly column, and also in checking up for due dates, so that the correct column is run up on each page. When numerous acceptances are recorded each month (on this form), taking many pages of the register between the date of entry and the due date, it will be very necessary to go back carefully over each page upon which an unpaid acceptance may be recorded. In cases where acceptances are given for bills of goods of long dating, this may necessitate running up the columns for many months or as far back as the longest dating, which may mean 6, 9, or more months' register sheets to check.

All points should be considered in the choice of forms, especially for the sake of simplicity and accuracy. When the acceptances are expected to cover many months or be considerable in number, it has been found that the use of the Standard Form of register, Figure 11, together with the checking of the due date from the filed carbon copies of the acceptance itself, is the most simple and accurate method.

Method of Handling Acceptances After Recording.— The plans in Chapter VIII, covering the bookkeeping and accounting departments, will be sufficient to illustrate a standard method of handling acceptances after they have

STANDARD CHECK-UP SHEET OF TRADE ACCEPTANCE RESULTS FORM NO. 5 — SHEET NO.

(SIZE $8\frac{1}{2}'' \times 11''$)

DESIGNED BY BUSINESS BOURSE, NEW YORK

MONTHS 19	NO. SENT	NO. RET'D	% RET.	$ SENT	$ RET'D	% RET'D	AVERAGE SIZE RET'D	AVERAGE TO ADOPT	TIME TO RET.	AVERAGE WHO PAY CASH	NOT RET'D OVER DUE WHEN PAID	TOTAL	PROPORTION ACCEPTED IN EACH TERR.	OTHER CAPTIONS
JAN.														
FEB.														
MAR.														
APR.														
MAY														
JUNE														
JULY														
AUG.														
SEPT.														
OCT.														
NOV.														
DEC.														
TOTAL														

FIGURE 13. STANDARD CHECK-UP SHEET OF TRADE ACCEPTANCE RESULTS

been returned accepted and entered in the standard or other register; the usual handling of bills receivable or payable will supply a balance of working details.

General Plans for Checking.—When a firm is starting to use trade acceptances and wishes to reach the greatest efficiency, it is desirable to keep quite complete records and to check them up monthly until the results are well established. The firm should then concentrate on the weak spots and adjust methods until they are corrected. The points that it is desirable to watch are: how many acceptances are being sent out and their amount in dollars; how many and what amount in dollars are being returned accepted; returns in relation to the size of acceptance; in what average time the acceptor returns same; average length of time it takes buyers to accept first acceptances; average of those not accepting, who do not pay as per terms; average of those not accepting who discount for cash; percentage of returns from each territory.

Record forms may be adapted, similar to that in Figure 13, for gathering data that it is desired to analyze. The form in Figure 14 illustrates the various daily record sheets which may be devised to keep temporary records of any data that it is desired to gather for codification in the check-up sheet. These special sheets for gathering data daily are only necessary when a large number of acceptances are sent out and it is desired to handle all details oftener than monthly.

Results Derived from Check-up Records.—Like any other activity or plan, it is found that the procedure, as well as the results, in handling trade acceptances, may vary to a limited degree with each firm handling them, even when they do so in a similar manner; and it is, therefore, valuable to watch results in detail, at least until it can be definitely decided that modifications of the various details of handling would not be to advantage.

(SIZE $8\frac{1}{2}'' \times 11''$)

STANDARD DAILY RECORD SHEET OF TRADE ACCEPTANCES
SENT OUT FORM NO. 6—SHEET NO.

FOR TRANSFER TO CHECK-UP SHEET,
AMOUNTS IN ROUND FIGURES

DESIGNED BY BUSINESS BOURSE, NEW YORK

DATE	JAN.		FEB.		MAR.		APR.		MAY		JUNE		JULY		AUG.		SEPT.		OCT.		NOV.		DEC.		TOTALS FOR YEAR
	NO.	AMT. IN $	NO.	AMT. IN $	NO.	AMT. IN $	NO.	AMT. IN $	NO.	AMT. IN $	NO.	AMT. IN $	NO.	AMT. IN $	NO.	AMT. IN $	NO.	AMT. IN $	NO	AMT. IN $	NO	AMT IN $	NO	AMT IN $	
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27																									
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29																									
30																									
31																									
TOTAL																									

FIGURE 14. TRADE ACCEPTANCE DAILY RECORD FORM

The more complete the acceptance records and comparisons are, the more quickly can the results be applied so as to produce as nearly 100 per cent returns as possible and give satisfaction to all concerned. The latter, in its effect on the relations of the buyer and seller, is of highest importance to ultimate success.

CHAPTER VIII

SOUND ACCOUNTING METHODS FOR HANDLING TRADE ACCEPTANCES BY SELLER AND BUYER

Trade-Acceptance Accounting.—Since accounting methods for acceptances cannot be made entirely uniform, it is probable that various simple modifications will suggest themselves to different firms as they adopt the trade acceptance in their business and proceed to handle it.

From the specimen acceptances and the explanation thereof in Chapter II, it should be clear how the trade acceptance is filled out and handled and that the "drawer" is the seller and the "acceptor" is the buyer, or "drawee." The amount of the acceptance in dollars appears in the upper left-hand corner. It should be dated at the place where it originated—the seller's city. The date drawn should be that of the shipment or billing. But if it is averaged or drawn the last of the month, or the first day of the month following, the acceptance should be dated accordingly.

In the upper right-hand corner of Figure 3 appears the date of invoice. If the acceptance is made to cover several invoices of the preceding month, their dates are noted thereon. These notations make it optional whether or not a statement is made out and accompanies the acceptance. This is done to save clerical work by the seller, as well as to fully post the buyer as to what invoices the acceptance covers.

The blank line "———— after date" in this form (Figure 3) can be filled in in either of two ways, according

to the desires and custom of the seller. It may read "sixty days (or two months) after date" or the date of maturity of the acceptance may be inserted as "January 1 after date." This latter is much the preferable method, as it obviates the necessity of figuring just what day the end of "30 or 60 days after date" will fall on. The carbon copy left with the buyer shows him the exact day on which the acceptance will fall due and will be presented at his bank or other place designated by him for payment.

The line for the amount of the acceptance should be filled in, as in a check, and with the exact amount to be paid by the buyer if he accepts and pays the acceptance; that is, where any discount is given, such discount should be deducted and the amount of the acceptance be for the original debt less any such deductions. Similarly, if freight or other allowance is known and is to be deducted from payment by buyer, the acceptance should be for an amount equal to the original debt less all such deductions, unless it is preferred to settle by seller's check to the buyer, when the amount is ascertained. This, of course, would not apply to a cash discount, because an acceptance is a time instrument paying a credit debt, and in no way represents "cash payment." However, an acceptance can cover "cash" purchases, when the "cash" terms cover a sufficient period of time to warrant it. The "cash discount" should be deducted in such cases. When interest is to be added, it is best to include it in the amount of acceptance. Interest accrues after the due date automatically when the acceptance is presented and not paid.

The place for the signature of the seller at the lower right-hand corner of the acceptance should, of course, contain the name of the seller (drawer).

Correct Forms for Seller's Name.—This name of the seller may be either printed on the acceptance, put on

with a rubber stamp, typewritten, or signed by hand, or inserted by a combination of same. Unless the number of acceptances sent out is prohibitively large, it is preferable to have part of the signature made by hand. If the seller is a corporation, the name of the company may be printed and the name of the official, agent or employee of the corporation may be signed in ink, or, if this is not reasonably possible, by rubber stamp.

This name at the lower right of the acceptance need not be a legal signature or by a person authorized to sign checks or other instruments, but the firm's name (not official's name) should correspond to the indorsement to be made on the back of the acceptance for collection or discounting. The latter indorsement must, of course, be one authorized by the firm for regular signatures or indorsements, and the name or names of officials must be signed by hand, except where special agreement to the contrary is made with the bank.

The titles printed on the Standard Form, Figure 3, are illustrative and may be modified to suit the needs of each firm using them. If it is probable that several officials of the corporation may be called upon from time to time to sign acceptances, it is well to provide their proper titles below the line. In this form, by striking out some of the printed titles, the signature of president, vice-president, treasurer, assistant treasurer, comptroller, or assistant comptroller, are provided for. Titles or parts of titles not needed can be stricken out at the time of or after signing, or may be stricken out when the body of the acceptance is being filled in or at any time before the acceptance is banked.

How the Acceptance Should Be Filled In.—The lines at lower left of the trade acceptance are for the name of the acceptor and his city or state, and are filled in when the acceptance is made. The correct name of the buyer should

be carefully designated. The seller, or maker, of the trade acceptance has now completed his part of the acceptance.

The buyer, to complete the acceptance, must fill in the red lines across the face of the acceptance, as designated. He may do this with ink or he may have same filled in with a typewriter or otherwise, except for that part of his signature or signatures which have to be signed by hand on his checks. When the acceptance is accepted by the buyer, he must use that signature which he has authorized his bank to honor on checks, notes, or other documents.

The wording on the Standard Forms (Figures 1, 2 and 3) is so put as to make the acceptance negotiable and binding on all signers or indorsers, whether the buyer makes the acceptance payable in his home city or at a bank elsewhere in the United States. It is desirable that the same or similar wording be used on all acceptance forms. The acceptor should fill in on top line the name of his city and the current date when acceptance is accepted by him.

Place of Payment.—It is legal, though not customary, for the place of payment to be other than the acceptor's home city. The acceptor, if he wishes to pay the trade acceptance through his bank, should insert on the second line the name of the bank, banker, or trust company in the United States where he desires it to be presented for payment, and on next line the city and state in which the institution is located. The acceptor may make the acceptance payable elsewhere than at a banking house. This is seldom advisable for many reasons besides the ease of discount and the economy of collection, such as the inconvenience of having the acceptance presented at one's place of business, which necessitates having cash or a certified check on hand to meet the acceptance on the day it is presented. No collection notice is obliged or expected to be sent to the acceptor of a trade acceptance, which was ac-

cepted payable on a certain day at a certain place, any more than one would expect to receive notice of a check to be presented at the bank.

If the acceptor designates a bank where he has funds to meet the acceptance on the day it will be payable, the bank can pay the acceptance without notifying him of its arrival, and charge it against his account without further instructions from him. This is covered by his order to the bank, represented by his signature on acceptance, as worded in the Standard Forms.

As noted in Chapter XI, the laws of a few states do not specifically instruct the banks to pay without further order, but in such states a special notation on the acceptance or a letter to the bank can so instruct that the bank should comply, when the acceptor has funds in their hands sufficient to cover the obligation. The Standard Form (Figure 3) covers this point in all States by its special wording, approved by the Federal Reserve Board.

If it is desired to have the acceptance payable in a city other than the acceptor's own city, it is usual to arrange so that the drawer may incorporate this feature in the acceptance when made, since this is necessary to conform with the law of some states relating to negotiable instruments. However, the wording on standard forms (Figures 1, 2, and 3) of the trade acceptance legally covers this matter in whatever way it is handled.

As stated, if, when making out the original acceptance according to the Standard Form (Figure 3), it is folded along the perforation and a carbon is inserted between the original and the duplicate, the buyer is furnished with an exact copy of the original acceptance (including the amount, the due date, and the invoices covered), with the exception of the maker's and the acceptor's signature and the date and place of acceptance, as filled in by the buyer. The buyer may, when completing an acceptance for his

records, note on the duplicate the name of the bank or place at which he made the acceptance payable. This copy will serve as a memo. receipt for him until the original is returned through the bank when paid, furnishing him a permanent receipt.

Forms similar to this furnish the buyer as well as the seller with a complete record of the transaction, with all necessary data included thereon.

Obtaining Acceptance with Order.—Some firms who deal in standard lines of goods with well-fixed prices and reputations are getting trade acceptances signed or, rather, accepted, by the buyer at the time the order is given or signed. In such cases, when the order is taken the acceptance is made out by the seller and the buyer accepts. If the time is to run from date of shipment, the date of the acceptance, or at least the due date thereon, is usually not filled in until shipment is made, unless it is determined when the order is taken what is the proper due date for the acceptance. In the case of dated goods, when the due date is predetermined when the order is taken, the acceptance can be filled out accordingly.

Although this may be a feasible credit plan theoretically, it is one that can be employed only in special trades, businesses, or conditions.

Taking acceptances on either method is purely optional and as agreed by the parties concerned. Both are in accordance with the rulings of the Reserve Board, as quoted in other chapters, and the latter method is especially covered by the following opinion quoted from a letter of the Federal Reserve Bank of New York:

As to your letter in which you asked the question whether a trade acceptance made at the same time as, or soon after, the order for goods is given, and before the goods are manufactured or shipped, would be subject to rediscount by Federal Reserve Banks, our Counsel feels that this would depend largely on

the question of good faith. If the purchaser desires to pay for his goods in advance of their being manufactured or delivered, he is entitled to do so by trade custom and it would seem that the acceptance or note which he executes in lieu of cash, would be arising out of a commercial transaction in general and out of the purchase of goods in particular. By signing such an acceptance, however, the purchaser puts himself completely at the honesty of the manufacturer or seller of the goods.

The foregoing would apparently apply to a contract, or order for future delivery, on which an acceptance was given in advance of billing.

Acceptance Terms Noted on Order and Invoice.—When a strong campaign is being made to get as many trade acceptances returned accepted as possible, and they are being featured by salesmen and in other ways, it has been found desirable to put the trade-acceptance terms on the order forms, as well as on the invoice. When acceptance is optional, putting on the terms on the order is a mere matter of policy. When a trade acceptance is sent with the invoice, with a special notice or letter as to terms, it is not necessary to have the terms on the invoice; neither, if the salesman explains the terms, is it necessary to have them on the order blanks.

However, investigation shows that it is preferable to have all such matters plainly stated and understood by the buyer, and, where this is done, a good form is as follows:

1. Where no discount is offered for acceptance:—

Terms:

..% for cash	... days
Net on trade acceptance	... "
" " open account	... "

2. Where discount is given for acceptance:—

Terms:

..% for cash	... days
..% " trade acceptance	... "
Net on open account	... "

A large clothing manufacturer states his terms as follows:

"—:Our Terms:—2% 10 days, 60 days net, on open account, or 90 days net by Acceptance."

These forms should vary as the terms vary and the wording may be adapted to suit the desires of the seller.

Dating with Cash Terms.—When dating is given as to both net and cash terms, it is desirable to get the acceptance signed at once or when the charge is made. In this instance it is usual to make the acceptance for the full amount of the charge and for full time, and not for the time and amount as per cash terms, even though the buyer usually purchases on cash terms.

If the buyer wishes to avail himself of the cash terms before the acceptance becomes due, he can at any time remit the charge less the cash discount directly or through his banker, and have the acceptance he has accepted, or its equivalent, returned to him. However, if the buyer agrees at the time the acceptance is made out to pay for the goods on cash terms and date, the acceptance can be made out accordingly, less cash discounts, and so accepted. When a buyer pays part cash before the acceptance becomes due, the drawer gives him credit for this partial payment and remits this amount to the bank at which payment is to be made on the due date. But, if he deems best, he may send the acceptor a remittance covering the payment, in order that he may use it in paying the acceptance when presented at his bank; although the former method is preferable and safer. Other methods of adjustment may be arranged through banks and the foregoing methods adjusted according to varying situations or policies.

Terms and Methods Employed When Acceptance Is Not Accepted.—It is not usual, in this country, to insist upon the acceptance of a trade acceptance; rather, it is left to

the discretion of the buyer whether or not he accepts and returns the trade acceptance to the seller. When it is optional, and the buyer does not accept, the account is handled as the usual open account and is treated as if no acceptance form had been sent to the buyer for his decision. If acceptances are insisted upon as part of the terms of sale, it is obligatory for the buyer to accept, and should he not do so, the seller can take appropriate means to enforce the acceptance, such as drawing for the amount through a bank by a sight draft or by a time draft, which amounts to the same thing as a trade acceptance. Should this fail, action for non-fulfillment of terms might be instituted, although no standard form of procedure is suggested.

However, along with the first few acceptances sent to each customer, most firms prefer to send one or more letters, suggesting the acceptance be accepted and returned, in order to get the buyer in the habit of accepting as soon as possible. Educational data are desirable at this time as suggested in Chapter IX.

In some cases, salesmen are used to assist in obtaining the acceptances. One large manufacturer of farm equipment reports his method as follows:

> If a salesman happens along at a point where a trade acceptance should be picked up, and the dealer has not sent it in, he asks the dealer about it and if he cannot find the one which the office has sent, the traveler then and there makes up one, leaving the signature for this company blank, but the purchaser signs it across the face. In most cases, however, the traveler is able to locate the one we sent with invoice, for the reason that most dealers keep their invoices.

Record of Acceptances.—When a trade acceptance is made and sent out with the invoice (or to cover several invoices), as explained, it is not necessary to make a copy or entry of it, since a trade acceptance is not in force until it is accepted by the buyer and returned to the seller,

who then can make records from the returned acceptance itself. However, the desires of the drawer will prevail in all such details. Records have been arranged by carbon copies of the Standard Form of acceptance (Figure 3) and on the Standard Register for acceptance, as described in Chapter VII.

War Stamps on Acceptance.—Under the War Revenue Act of October 3, 1917, a revenue stamp must be affixed and cancelled on each acceptance, at the rate of 2 cents for each $100 or fraction thereof. This need not be done until the acceptance has been accepted and returned to the drawer by the acceptor, as per the following opinion of the Internal Revenue Department:

> The general rule is that a taxable draft or check becomes subject to the tax concurrently with its delivery. In the case of a draft the rule means that the tax attaches, not when it is signed by the drawer, or presented to the drawee for acceptance, or accepted by him, but when it is delivered to the payee, if drawn to a third person, or negotiated by the drawer, if drawn to his order, whether such delivery or negotiation takes place before or after acceptance.

Follow-up Forms on Trade Acceptance.—Various forms of follow-up are used to insure payment of the acceptance when due, when the acceptor is not supposed to keep accurate records of his acceptances or until he becomes accustomed to them. These follow-up media take the form of short letters or printed notices to the acceptor, reminding him of the due date, the bank where payable, and amount of the acceptance. The most simple reminder and, at the same time, the one least apt to cause displeasure, is an extra carbon copy of the original acceptance, made as on the Standard Form (Figure 3) and put in the tickler to come up a few days before the due date, in order that it may be mailed to the acceptor, as described in other chapters.

Book Entries of Acceptance.—The receipt of an accepted trade acceptance is the same as the receipt of a check or note in payment of an invoice or an account. It should be considered as a settlement of the charge represented by the acceptance and, if customary, an acknowledgment or receipt should be sent to the buyer, although this is not necessary, because the acceptance, when paid and returned to him, will act as his receipt. A carbon copy of acceptance, properly inscribed, may be used for this purpose. However, where the Standard Form (Figure 3) of trade acceptance is used, the buyer has left in his possession a complete carbon copy of the acceptance he has signed, including the date or dates of the invoice or invoices or the statement settled thereby, and it is superfluous to send a receipt.

When returned properly accepted, acceptances should be entered to the credit of the buyer and charged to an account designated "Trade acceptances receivable" and so listed in statements. This charge cannot be properly carried under "Accounts receivable" or "Notes receivable," being sometimes rated better than either of these for the same grade of credit.

The entry of the trade acceptance in the books or ledger is often marked "T. A." for identification and information in considering the granting of further credit pending the payment of the "T. A."

When acceptances which have been entered under "Trade acceptances receivable" are discounted, they are entered in a "Trade acceptances receivable discounted" account, which offsets the same amount in the "Trade acceptances receivable" account and shows contingent liability on unpaid acceptances discounted. However, they may be taken out of the "Trade acceptances receivable" account and handled in the same way as any other paper that is discounted. They are not then an asset or a direct liabil-

ity, but may be shown, when making a statement of condition, in a footnote, as "acceptances discounted, contingent liability" until paid by the acceptor. The former is considered the more conservative and proper method.

Detail Records of Acceptances Discounted.—Various methods of handling the detail records of discounted acceptances are used. The Standard Form of trade-acceptance register will allow entries of all details, together with the regular book entries, and, when desired, carbon copies of the acceptance may be used. Some firms clip together the carbon copies of the acceptances discounted, with a memo. showing the total (added on an adding machine), to form a checking record for each lot discounted, and enter the total in "acceptances receivable discounted" and the account with the bank.

When Not Paid at Due Date.—Should an acceptor not pay the trade acceptance on presentation, whether protested or not, it will be handled like an unpaid note, and the holder will have cause for action, primarily, against the acceptor on the acceptance; next, against the indorsers; and, finally, against the drawer of the trade acceptance, with interest from the due date. It is not necessary or desirable (although permissible) to say anything on the acceptance form about interest after due date.

When not paid, the bank will return the acceptance to the one who has placed the acceptance for collection or discounted it, and if it is discounted and credited to his account, it will be charged back with interest and charges in the usual way. If it has been put in for collection, the bank will make the usual charges when returning. Entries in books of record should be made accordingly, to debit the account of the one from whom the acceptance was received and to credit the account of the bank or one handling the acceptance, with any other offsetting entries.

The holder, when notified of non-payment, will ask for settlement from the acceptor by check or note, or, if he is the drawer (and it seems necessary or good policy), he may again charge it to the buyer's open account. In other words, an acceptance requires the same handling as a note or a check, not paid upon presentation; and the same methods and records should be used by the seller that he would employ under such circumstances. Discretion and reasonable leniency should be used, especially in first cases of the kind.

Methods to Use When Extension of Time Is Desired.—If the acceptor asks for an extension of time, desiring not to meet the trade acceptance at maturity, it will then be possible for the drawer to handle the matter in one of several ways, should he not wish to let the acceptance be presented and embarrass the acceptor.

Various plans will suggest themselves besides the one of again charging the amount to the buyer's open account. The drawer may ask the acceptor to send a note, for all or part of the amount, dated at the time the original charges are due (with or without interest). On receipt of this note the drawer of the trade acceptance can return the signed acceptance to the acceptor (if he has it in his possession). If it has been discounted, and it is too late, or if he does not desire to recall it from the bank, the drawer may send the remittance to the acceptor's bank with instructions to use it to pay the acceptance. If he wants to protect the acceptor and considers it prudent, the drawer may send the remittance to the acceptor, for all or part of the acceptance, requesting the acceptor to meet the trade acceptance when presented. Thereafter the drawer can make what arrangements he deems best for the payment to him of the obligation by the acceptor. It will be understood that if the holder of the acceptance is not the drawer, those concerned with the acceptance to whom

he looks, and who are liable, for its payment, are, respectively, the acceptor, the indorser or indorsers, and the drawer.

Handled Similarly to Notes Receivable.—In general, the trade acceptance can be handled in the same way as notes receivable, but, as stated, it should not be included under that caption but under the heading "trade acceptances receivable" and should be so entered in the books and also in any statements that are made. However, if it is expected to handle many acceptances, the usual methods of handling notes will be somewhat cumbersome.

Nevertheless, records are often found to be valuable for checking up results and averages. Carbon duplicates similar to the Standard Form of trade acceptance are easily made for this purpose, and are best numbered in serial and in duplicate with the originals, as heretofore described.

Procedure in Handling Acceptances Received.—It will probably be well to have one clerk handle all the filing and check-up of trade acceptances. When trade acceptances are received, it is optional either to offer them for discount (if that is desired, in order to have the use of the money) or to keep them in one's "portfolio" for future discount or for putting through for collection at the due date.

The person in the treasury department or the bookkeeping department handling this matter (who should be a person of judgment) may mark with a pencil in the upper left-hand corner, or elsewhere on the trade acceptance, the date on which it should be sent to the bank for collection, allowing sufficient time for it to arrive at the bank where it is payable. The file clerk files it in the portfolio (divided into days and months for the 12 months) under the date marked to come up then to be sent for collection. If the acceptance is filed under the due date it must be taken out in sufficient time for collection.

Each day the file clerk can remove from the portfolio all trade acceptances filed under that date and clip them together, handing them to the treasury department for further action. The treasury department then decides upon the banks through which it will handle them and proceeds accordingly.

Even though the trade acceptance is to be discounted at once, or in a few days after it is received, it is advisable to file it in the portfolio according to collection date, unless it is handled immediately at the time of receipt. In this way it can be readily removed from the portfolio, if it is desired to discount it the next day, or in a few days, or at any time thereafter, before it is due.

In discounting, it is usually the most economical course to discount the trade acceptances which have the longest time to run, or for as great a time as the bank will allow discount, in order to distribute and minimize any collection or service charge.

Any dates or details desired can easily be obtained from the register sheet, for if at any time it is desired to take the acceptance from the portfolio file, it will be easily located according to collection dates. By this procedure the register furnishes a complete record, besides the postings and transfers to the regular books, and the portfolio keeps the trade acceptances safely and in correct order as to collection or due date.

Irrespective of how the acceptances are to be handled, they should be completely recorded in an approved register. In order to minimize the detail, it is desirable to enter as few items regarding trade acceptances in the regular books of records as possible, and even to minimize the entries in the register so as to economize labor, especially when many acceptances are received daily. When fewer items are handled, more elaborate systems of handling and recording may be used, as outlined in Chapters III and VII.

CHAPTER IX

INSTRUCTIONS AND LETTERS TO SALESMEN AND CUSTOMERS, AND HOW TO HANDLE THEM

Methods of Presenting the Acceptance Theory.—Whether or not a customer is given the choice as to credit terms, it will be valuable in obtaining his good will and cheerful coöperation to post him thoroughly about the trade-acceptance terms and the benefits to be derived therefrom. It has been found desirable, therefore, to consider carefully how many plans and letters, intended to "sell" the trade acceptance to customers, can be employed to advantage in a campaign, even though the customer has no option, but is obliged to pay cash or by trade acceptance.

In a case in which the customer has a choice of open account terms or the trade acceptance, it is very obvious that if it is expected to wean him from the old, easy-going, satisfactory (to him), easily stretched credit terms, all fair methods must be used to interest him and to "sell" him the new terms. Personal touch and explanation, of course, in such a campaign, as in any other selling plan, are by far the best methods. Whenever it is possible to come into touch with a buyer's financial department, a personal explanation of the trade acceptance plans and benefits is found most effective.

However, on account of the complexity of business to-day, the large number of customers, and the infrequency with which it is possible to get them in personal contact with the officers or executives of the firm, other adequate plans, which may be put into universal operation, have

been devised. As explained elsewhere, when the salesmen come in contact with the credit department, they can help greatly in supplying this personal touch and explanation of the misunderstood points about trade acceptances, provided they are themselves well instructed in the "ins and outs" of the trade-acceptance terms and procedure.

Personal Letters from Officials.—To relieve or assist both the officials and the salesmen, it has been found helpful, if not practically indispensable with those not thoroughly familiar with acceptances, to make the appeal to the buyer by a well-considered "personal letter" from an official or executive of the firm. Experience has proved that where a buyer can "talk it over" with a principal in the firm, he is apt to agree to "accept," and since a letter from an executive is the next best thing, it has been found to have considerable effect. The letter may be couched in friendly terms, and contain a short discussion of the principles and the object of the movement, and an appeal to the buyer to help along a worthy cause. A suggestion can also be made that, if desired, the signer of the letter would be glad to discuss the subject further.

From investigation, the letters in this chapter have proved to be along successful lines, although it is advisable to modify them sufficiently to give the personal tone of the firm sending them, so that they will be appropriate to and appeal mostly to the *class* of *customers* to whom they are going.

These letters are very important and should receive careful thought in their construction and composition, to make sure that each letter will "get over" with the buyer who receives it. The sender is already "sold," but the letter must *"sell" the customer.* Whether the endeavor should be made to "sell" the buyer with one letter, or whether, in case he does not "accept" after receiving the letter with the first acceptance, it should be followed up with others

until he does accept, may be decided according to the conditions prevailing in an individual business.

Credit Department Follow-up.—The most successful plan seems to be to send a series of three letters as follow-ups of the first acceptance sent, and, if they do not induce a signing of the first acceptance, to continue them with the next several trade acceptances sent to this customer, or until he is heard from or he "accepts." This follow-up scheme can be left to the credit department, which, when the trade acceptance is made out, can arrange for the kind of letters to acompany it, dependent on whether the buyer's account shows that he has paid with trade acceptance or not. (Payments by trade acceptance are usually noted in the ledger accounts of each customer.)

By using the form in Figure 3, or a similar form of trade acceptance, as reproduced and explained elsewhere in this book, this method of sending letters is easily handled and followed up, because the duplicate acceptance can furnish all the necessary machinery to put the system into operation and carry it through simply, without the necessity of making any special records.

The *terms* mentioned in the following letters *should be modified* to agree with the firm's trade acceptance terms. *They are not presented as model terms,* but are *merely as illustrations* of various ones in use.

Typical First Form Letter on Trade Acceptance.—The following is a typical first form letter, sent to each customer with the first trade acceptance, or until he accepts. The wording in parentheses should be omitted except when inducements are offered for signing the trade acceptance:

GENTLEMEN:

We take pleasure in notifying you of the favorable terms which we are enabled to offer you through arrangements we have made, under the Federal Reserve Banking Law, covering the medium of paying bills by trade acceptances instead of by check, etc.

You may have 60 days on settlement from the first of the month following the date of shipment. (We deduct from the invoice ½ of 1 per cent, as per the trade acceptance attached to it. This results in a substantial extra profit to you on all transactions with us closed in this way, and also applies when the acceptance is sent with the monthly statement.)

As you are probably aware, the trade-acceptance plan of acknowledging a shipment and settling for it at the same time, is an eminently fair one and is approved by the Federal Reserve Board, the Federal Reserve Banks throughout the country, business men's associations, and the Credit Men's Association, which resolved that: "The 31st National Convention of Credit Men clearly and emphatically go on record as favoring the steady and rapid substitution of trade acceptances for open accounts." No doubt you would like to coöperate.

You need only write across the face of the trade acceptance the date, the name of the bank where you want us to present it for payment when due, and your signature as it appears on your checks. Your bank will pay the acceptance when due and charge it to your account the same as it would your check and return it to you with your cancelled checks. Thus you will have a complete record of the transaction in this one paper. This method differs little from the payment of your bills when due by check except that it is more simple for all concerned (and carries a special benefit to you in return for the benefit we derive from this plan of carrying our account).

[Here may be inserted a sentence about return and credit privileges, worded to suit the firm's usual methods; such as, "any privileges of return or credit for goods not satisfactory for any reason remain the same as before, also our motto 'Satisfaction or Money Back.'"]

Thanking you in advance for your coöperation, since we believe this plan will appeal to you as business-like and fair, and soliciting a continuance of your valued orders, we remain,

Cordially yours,

[Preferably signed by]

President
or Treasurer.

N. B.—A governor of the Federal Reserve Bank says: "Paying by trade acceptance benefits the credit of the buyer." An authority states that: "Those discounting or paying bills by

trade acceptance often get favors not received by buyers on open account."

If you take a cash discount, please return the trade acceptance to us unsigned with your check. If we do not receive either, we will understand that you wish us to handle the account as heretofore, in which case our net terms are the same.

When this letter accompanies bills having future dating, the following may replace the last paragraph:

Should you wish to take the cash discount by the 10th of the month following the due date, as per dating, you may at that time send us your check for the face of bill less 2 per cent for cash and we will return to you the trade acceptance you sign at this time.

Typical Second Form Letter on Trade Acceptance.—This letter is sent to a customer 12 days after the first trade acceptance, if it has not been returned:

GENTLEMEN:

Our (President or Treasurer) took great pleasure in advising you of our company's special credit terms on trade-acceptance settlements.

I would be very glad to discuss with you further this very efficient method, now being adopted by the most progressive manufacturers and merchants, large and small, the entire country over.

(Our offer affords you an extra discount at no cost to you.) Please sign and return the trade acceptance to us, for in order to make it of value we should have it in hand promptly. This puts no additional obligation on you, and it enables us, through the Federal Reserve Banking Law, to use your acknowledgment of our shipment of goods to you to anticipate our engagements and thus affords a benefit which we would be glad to reciprocate.

Remember "Service and Satisfaction" are our hobbies, and if you have any complaints to make before or after payment, advise us at any time. We settle all cash claims by our check.

We should appreciate your coöperation in our efforts to put into force, as generally as possible, this popular credit plan. Always awaiting your commands with interest, we remain,

Sincerely yours,

ASSISTANT TREASURER.

P. S. We would much appreciate your signing and mailing to us our trade acceptance that you now hold.

This letter should preferably be signed by "Assistant Treasurer," or some official other than "Auditor" or "Credit Manager" or one who usually signs "dunning" letters.

Typical Third Form Letter on Trade Acceptance.—This letter is sent to the customer 20 days after the first trade acceptance, if it has not been returned:

GENTLEMEN:

We esteem you as one of our valued customers to whom we wish to extend all the favors possible. We, therefore, again take the liberty of bringing to your attention (before it will be too late for you to take advantage of these benefits our terms offered for settlement by) the trade acceptance sent you.

We ourselves are finding many advantages in paying for our time purchases with trade acceptances, such as the best prices, prompt shipment of orders and, in fact, many of the favors given by those whose bills we discount for cash.

In effect we find that this plan stands for even exchange between buyer and seller. The seller ships valuable goods to the buyer and the buyer, by the simple signing of an "acknowledgment" of the shipment and by stating the date on which he will pay, gives to the seller an equivalent for his goods, which is not due a day before the bill is due. You can thus give a certain advantage to the one selling you goods, which he will not be slow to appreciate and to return to you in many ways.

When all merchants use and "accept" trade acceptances in this country (as they now do in Europe) the United States of America will have complete preparedness in business settlements, and money panics and their resulting hard times will be done away with.

We always appreciate your favors and coöperation.

Yours sincerely,

——— ————.

Letters to Salesmen.—It is a well-known fact that salesmen need "ginger letters" to instill enthusiasm for any new line—acceptances included. The following are speci-

men letters to salesmen in spreading trade-acceptance theory. It should be noted that the terms inserted should be as used by the firm sending out any letter, and that the matter in parentheses in this sample letter should be used *only* when it is in *accordance with the terms.*

Re Trade Acceptance

To Our Business Engineers:

Effective January 1st, this company will make an addition to its terms of sale by adopting the trade-acceptance plan, so earnestly indorsed and recommended by the Federal Reserve Banks, the National Association of Credit Men, and the many manufacturers who have adopted it [or "the association of —— manufacturers," if your trade association has indorsed the movement]. On and after that date our terms will be:

2 per cent for cash the 10th of month following shipment, or

Trade acceptance due 60 days after first of month following shipment.

[or "We deduct in the trade acceptance ½ of 1 per cent from the face of the invoice, as an extra inducement for signing the trade acceptance, provided the trade acceptance is signed and returned promptly upon its receipt by the customer."]

Although this collection plan has been used extensively and successfully in foreign countries, its use was not feasible in this country until the adoption of the present Federal Reserve Banking Law, one main object of which was to provide for elasticity in credit relations.

The value of the Federal Reserve Act, as a stabilizer upon business to prevent panics and to utilize the merchandise of the nation as a basis for currency, has perhaps seemed to you an academic proposition, something for masters of high finance only. But there is in it a very practical feature, for it is a distinct step forward in the business methods of this country which affects the small merchant, the big city merchant, and the manufacturer alike. Liquid credits often cut down selling cost.

As you may know, a "trade acceptance" is a paper the size of a check, worded just about as simply, which we will send to the customer with the invoice or statement (sample is attached).

The customer sees that the bill is correct as to price, amount,

terms, and all other particulars, and simply writes across the face of the trade acceptance the date, the name of his bank, and his name, and returns it to us. If he has no bank account, he simply makes the trade acceptance payable at his own place of business. He does not worry any more about the bill because he has settled it with the acceptance, and at the end of a number of days, on the date designated, this will be charged to his account at the bank or, if payable at his place of business, will be presented there for payment. This varies from the open account method only in the paying of the account by signing an acceptance at once instead of a check when due. The buyer is furnished with a copy of each acceptance for his records.

It makes no additional cost or expense for the customer, because he pays only the amount shown on the trade acceptance, but it gives us a tangible and negotiable item on which we can secure money at the banks, instead of carrying an open book account that cannot be turned into cash until it is paid. This makes the trade acceptance of benefit to us (while the special terms are an attractive feature to the customer).

The trade wants time on its accounts and it is our desire to accommodate our trade, even though the authorities urge short credits.

If we are willing to place thousands of dollars' worth of merchandise in the hands of our customers all over the country, is it not only fair to ask that a certificate be signed that the account will be paid according to the terms of the sale? (This is particularly true when we are offering them an extra discount. Just stop for a moment and think how liberal our terms are when we allow ½ of 1 per cent discount from the invoice on trade acceptance.)

A large percentage of the unpleasant feelings caused in the collection of accounts is over the unjust deduction of cash discounts, which is one of the most abused practices in the credit business. Another is not remitting on due date.

Therefore, we adopt the trade-acceptance plan (and in offering the special terms of payment we believe we are so liberal that not a single individual will object). We are giving to the small merchant and the large merchant the same liberal credit terms, if they sign the trade acceptance.

We want you to be thoroughly informed on the subject and enthusiastic for the trade acceptance, so that you can educate your customers to the advantage which the plan offers. In or-

der to do this, you yourself must thoroughly believe in it. You must show the customer the advantages which he will derive and impress upon his mind that the use of the trade acceptance is a step forward toward better business methods, and one which will become general in use in this country. Suggest to him that he make use of the same method in his business with his customers.

From those customers who will not agree to the terms of a "60-days' trade acceptance" we will expect payment promptly in 60 days after shipment from the factory. We do not intend to permit the account to run extra days on open account, but will send you statements as heretofore of those open accounts which are not paid when due. Why should "slackers" get benefits not accorded our customers who pay when the account is due?

We want you to see the advantages to yourself as well as to this company in the trade-acceptance plan. As a salesman, when you secure the order on terms of 60 days' trade acceptance, the chances are 99 to 1 that when you go back with the account paid, you will find the customer ready to buy again. As stated, the trade acceptance will be sent with the invoice or monthly statement and it should be promptly signed and returned to us. We will hold it until maturity and treat it as a collection item or discount it at the bank, as the conditions of our finance warrant. Trade acceptances should be paid the same as checks, and you will immediately find that any difficulty you have formerly experienced in the open accounts will not continue with such accounts if the buyer has given trade acceptances.

Therefore, we again urge your faith in this plan and your utmost effort to procure each order subject to the terms, "trade acceptance, 60 days after first of month following shipment."

We enclose for you copies of 3 letters we write to each customer after sending the first trade acceptance. We are well assured that the whole plan, when fully understood by you, will be a most welcome innovation. If further information is desired, let us hear from you at once.

Very truly yours,

SALESMANAGER.

N.B. A complete schedule of terms will be sent you. Keep this letter before you until you become familiar with this subject.

Typical Second Letter to Salesmen.—The following is an example of a second letter to salesmen:

To Our Business Engineers:

We are sending you to-day by parcel post new order forms effective January 1st. Practically the only change is in terms of payment which are now 2 per cent for cash by the 10th of the month following shipment or trade acceptance due 60 days after the first of the month (less ½ of 1 per cent). Regular terms are net 60 days from date of shipment.

This is in accordance with our general letter of December 1st.

Please explain to each purchaser of our goods that on and after January 1st our terms will be as above. The trade acceptance is to be signed and returned on receipt of invoice or statement or within 10 days from date. (We offer an extra discount in consideration of his signing the trade acceptance, which every one must admit is very liberal.)

If we can secure your coöperation, practically all our goods will be sold subject to these terms, which will eliminate the necessity of sending you statements under the old account plan, thus saving your time collecting when you could be making a sale. By this method you will do all your work in one operation, both selling and collecting, at the time you sell the goods.

We want you to think the matter over very carefully, and we believe you will be as enthusiastic over the trade acceptance as we are.

Wherever it has been tried, it is universally liked; several of our competitors have adopted it with good success. Our terms are such as to eliminate all objection and confusion, provided you explain it in just the right way to each customer.

Any further information will be gladly furnished upon request, and we expect to hear of your success in this matter.

Yours very truly,

Salesmanager.

It should be noted that this letter to salesmen should be followed up by other letters and general data about trade acceptances. Talks and meetings to discuss the new terms should also be arranged.

Preparing Acceptance Letters to Customers and Salesmen.—Customers' letters should be duplicated in the best

possible form on the company's letterheads. The name and date are filled in with a carefully matched ribbon. The letters are signed with the official's name or initials in ink and mailed under first-class postage. As these letters only go out when the first acceptance is sent, or until the first acceptance is returned accepted, it is desirable to give them particular attention.

Letters to salesmen (on punched sheets for their salesmen's manuals) are carefully prepared or modified by the salesmanager and given to each salesman (also to new ones, as hired), together with copies of all letters or circulars sent to customers regarding trade acceptances. The forms shown in this chapter may be modified according to terms, requirements, and class of house, and customers of any firm using them.

CHAPTER X

VARIOUS CHANNELS FOR HANDLING ACCEPTANCES

Methods of Disposing of Trade Acceptances.—The consensus of opinion seems clearly to indicate that the accepted and proper market for trade acceptances in this country is the bank of the drawer or acceptor, usually that of the former.

There are many potential methods of placing, selling, or discounting acceptances besides placing them with the bankers of the maker or acceptor, but none seem so logical or successful for a free disposal of this trade paper. A bankers' acceptance, accepted by the banker of either the buyer or seller, can be sold freely in almost any locality or institution that deals in this class of paper; but with a trade acceptance the path of least resistance for the drawer or owner of the acceptance is through his own banking connections. This is the method usually employed for the sale or discount, as well as the collection, of trade acceptances.

Federal Reserve Member Banks and Others Which Discount Acceptances.—It might be supposed that member banks of the Federal Reserve system would be the most free to purchase trade acceptances, for they have the ready facilities for rediscount with the Federal Reserve Banks. However, banks, bankers, and trust companies, irrespective of their Federal Reserve connections, seem to handle them about equally. Often even the member banks do not rediscount T. A. paper, but hold it in their reserve until it is sent through for collection. The exceptions are usu-

ally the banks in large centers which acquire numerous trade acceptances or acceptances of large denominations and well-known acceptors, in which case they are more apt to rediscount them or sell them in the open market. Banks, bankers, and trust or discount companies seem to buy them indiscriminately, depending upon their customers and customs.

Methods of Discount Companies or Acceptance Houses.—As noted in Chapter III, in most of the European money centers institutions have sprung up known as "acceptance houses." These houses, which have ample capital of their own, do not usually accept deposits, but confine their operations mostly to the acceptance of drafts drawn upon them by their customers. In this way many concerns are able to finance their business needs to advantage, for, lacking an established credit, it would be impossible for them to borrow in the open market upon the strength of their unsupported paper. It is the custom of these acceptance houses to make a careful investigation of the business needs of such concerns, the character and ability of the management, and all other facts surrounding the risk, and if the result of the investigation proves satisfactory they do not hesitate, for an agreed commission, to accept for such houses. If the acceptance house enjoys a high credit standing, there is little difficulty in selling these acceptances at advantageous rates.

Discount Banks in the United States.—The distinctly discount banks of this country are of comparatively recent origin, although they have been successful in Europe for many years. The pioneer bank in this country was organized in the spring of 1918, with a capital of $2,000,000 and a surplus of $200,000. Larger organizations followed and, no doubt, these will be followed by other discount houses, until their combined facilities are equal to the handling of this class of paper, offered in the market and

for rediscount. In some phases the operation of these discount banks is more or less similar to the big commercial-paper houses and trust companies throughout the country, which are handling acceptances and similar classes of paper. These discount houses are very valuable in supplementing the facilities for the adequate and economical handling of trade-acceptance paper, as it is bound to increase rapidly.

It appears from the present experience of the discount companies in the United States in handling acceptances, that their methods of profitably handling acceptances are not so numerous as those of similar companies in London and other foreign money centers. In the American discount market the competition of trust companies and other banks of deposit is quite keen and the American firm or seller of acceptances does not hesitate to discount directly with its own banks or financial institutions as they seem to do in foreign countries.

In London, for instance, the discount companies can, when they so desire, accept deposits in greater amounts than they can in the United States, and can pay interest on them, so that large balances are left with them. In this country such balances are deposited in the trust companies or banks of deposit, which are accustomed to allow interest on total daily balances. Many English companies carry bank accounts which do not draw any interest and so they place the surplus in acceptances or with the discount companies or banks that will pay interest.

Also, in London many business houses do not discount their paper directly with their banks, but prefer to do so through the discount companies, in order to gain one quarter of one per cent, which to them appears more important than it does to many American firms. In London the banks seem freer to allow the discount companies to make a profit on their paper than in the United States,

where bankers apparently prefer to make all the profit and discount possible on any paper passing through their hands.

Therefore, many of those who are best posted on discount procedure in this country seem to believe that under present conditions discount companies will not become so numerous in the United States as they are in England and other foreign money centers, unless they should be allowed to accept deposits, and find it more profitable to handle a general line of acceptances and other commercial paper. However, the business of the companies established in this country seems to be growing and its operation is very satisfactory. No doubt it will continue to show improvement as these matters become adjusted in the financial world of the United States, and it will become more free in the purchase of a general line of acceptances.

Federal Reserve Banks' Powers to Purchase Acceptances.—The Federal Reserve Act authorizes the Federal Reserve Banks to purchase in the open market paper which is satisfactory to them, and although they have not availed themselves largely of this privilege, it is one which is very important and may have a great effect in stabilizing the market for acceptances. The knowledge that this power is held by them may have a good effect on the attitude of the banks towards such paper, and should, in case of necessity, have considerable weight in adjusting the rates of discount. This purchase in the open market by the Federal Reserve Banks may increase to a considerable extent, depending upon circumstances and the ability and attitude of the banks and banking houses in their support of the prompt and economical handling of acceptances.

Commercial Paper Houses and Other Buyers of Acceptances.—Many of the big houses handling commercial paper and brokers of commercial paper are buying and selling a considerable number of acceptances, especially

bankers' acceptances, because they can readily resell these in the open market and to banks.

Many large banks are also handling high-grade trade acceptances, as well as bankers' acceptances, purchased in the open market, in addition to such paper as they take from their regular discount customers, when in need of such paper to increase their liquid reserves.

Although all of the above facilities are working and will come into more general play as soon as trade acceptances are in more general use, as they are in foreign countries, yet these facilities are at the present time very largely confined to the handling of bankers' acceptances. This is for the reason that most trade acceptances now are accepted by smaller firms and the larger and better-rated firms have not been induced as yet to accept them to any great degree.

Note-Brokers' Attitude toward Acceptances.—It does not seem that the brokers of commercial notes throughout the country have taken a decided stand on the matter of acceptances up to the present time. Some seem to fear that the taking of acceptances by commercial houses and their ability to discount or sell them will hurt the standing of the notes which they put out to the commercial broker, and possibly curtail their volume. That the single-name note is just as necessary for the transactions which it should properly cover as the acceptance is for the current commercial transactions of the country, seems to have been proved in other countries where both are used.

After the buyers of commercial notes become accustomed to the procedure of handling the trade acceptance, they probably will not object to the discount of trade acceptances by firms who apply the proceeds properly, even though they also sell their notes to supply operating finances. The statements of these firms will show the transactions in trade acceptances just as they show any

other asset or their open accounts, and the money received from the discount of acceptances when it is properly applied will go to improve such statements. Those who are discounting acceptances and also their notes will probably persuade their brokers either to be satisfied that they should discount acceptances at the bank, or else to buy the trade acceptances as well as their notes.

It would appear to be safer for a firm to discount acceptances received from its customers, who agree to pay them rather than to discount its own notes, to cover its turnover of goods. Therefore, it is probable that those who have trade acceptances will discount them in the best market.

Location of Commercial Discount Houses and Brokers.—Large commercial-paper houses are located in the big money centers, but there are many reliable houses and brokers throughout the country, and it is not difficult for any firm to get in contact with these should it find the local market inadequate to take over its trade acceptances or other commercial paper at a proper rate of discount. However, it is always preferable to give the local banker all the opportunity and benefits possible to handle a firm's banking business to the amount that he is satisfied to cover, because he is the logical one to turn to, especially in case of need, and it is, therefore, well to favor him at other times.

The local banks may have surplus money to invest in liquid funds, and since acceptances from their locality in the hands of the commercial-paper houses will be listed and sent to them, they will thus be in a position to buy this liquid paper, on which are local names, with which they are familiar. This would have no effect on the legal limit of their loans to the acceptor. This market should expand as more acceptances are circulated and the machinery for handling them is perfected.

Banks That Buy Acceptances in Large Money Centers.—The market for acceptances, trade and bankers', is extending very rapidly among the more progressive banks with a surplus to invest, and which wish to keep those funds in the most liquid form. These banks are seeking bankers' acceptances daily and are gradually taking up the trade acceptances. Firms having a surplus of acceptances which they wish to discount often get in touch with banks of this class in the large money centers, in order to be in a position to discount acceptances when necessary, outside of their own local financial institutions. Large banks with a surplus frequently get in touch with commercial firms of standing which are issuing acceptances to their customers, in order to get a supply of paper direct, for this paper has proved of exceptional value as a secondary reserve because of its extreme liquidity and availability for rediscount with the Federal Reserve Banks, often at a preferential rate.

Reasons Cited in Favor of Acceptor's Bank Carrying the Debt.—It has been argued that the buyer's community should carry the debt of the buyer, and this contention, at least theoretically, offers some good ground for argument. Some of the points worthy of consideration, as to placing the debt where the goods are and where the payment of the debt will be made, are as follows:

1. The acceptor is primarily responsible for the payment of the acceptance and his credit standing would naturally be best known in his own community.
2. It would relieve the seller's locality of the burden of discounting his transaction.
3. A cheaper rate or a saving in collection or service charges might result from such handling.
4. It might tend to give first call to local banks rather than concentrate loans in large centers.

Some practical cases to which it might apply to advantage are:

1. When the acceptor is better able to discount the acceptance than the seller.

2. When the banks in the buyer's locality are better able to carry the paper.

3. When the buyer offers to finance the deal in order to get goods on credit.

4. When for some reason it may not be preferable to use a banker's acceptance accepted by the buyer's bank.

Some Possible Objections to Financing through the Acceptor's Bank Suggested by Authorities.—The plan of financing through the acceptor's bank being unusual might prove rather difficult to put through in the case of the average buyer in routine trade, when conditions are not as heretofore mentioned. In some localities or cities, banks would be restricted in the amount of loans, because discounts, if made by the acceptor, would come under the 10 per cent restriction, on trade acceptances as well as on other paper.

A banker who is well versed in the trade-acceptance procedure and its practical results says of the plan:

> The practice of discounting acceptances at the acceptor's bank may be arranged advantageously in some few instances, but any attempt to establish the system on a uniform basis would be attended by innumerable complications, and generally speaking would be impractical as well as contrary to the general idea.
> The credit of the buyer at the bank would be curtailed if he endeavored to finance the trade acceptance upon which his name appears as acceptor. This would undoubtedly be true because we cannot see that the local banker would be ordinarily justified in extending a larger credit on these acceptances than he would upon single-name paper of the buyer.

A wholesaler who is closely in touch with the trade-acceptance situation of the entire country says:

> It is obvious that when circumstances have made it necessary or advisable, acceptances may be discounted by the acceptor

at his own bank, but I do not know of any one who has made a practice of this method.

It should be kept in mind by the seller that to work out these plans it will be necessary to have the coöperation and acquiescence of the acceptor so completely that the sale or the future relations of buyer and seller will in no way be jeopardized. Credit is given largely to sell goods that could not be sold for cash, or to "build up" a clientele to whom the extension of credit is attractive. If the handling of the settlement of such credit uselessly prejudices or interferes with sales, then such terms, whether trade acceptance or otherwise, are a handicap to the success of the firm. Except when sales are pushed to the point of over-extension or of insecure credit, it is distinctly disadvantageous to the selling firm to allow credit or collection *systems* to handicap, as has been said, the "only place a dollar ever originates—that is, the sales department."

Facilities for Extended Discount of Acceptances.—When the seller prefers not to discount an acceptance at his own bank, he sometimes sends it to the acceptor's bank, or banks, in that locality, offering it to them for discount or purchase outright. Should they be in funds and desire to invest in the acceptor's paper, the seller might be able to sell it to them at an advantageous rate, even though they should make a service charge in addition to exchange.

The diverse attitude of banks in various districts toward handling acceptances may be noted from letters herewith quoted:

——— Trust Co.,
Philadelphia, Pa.

We oftentimes get acceptances from other points and of a small amount so it is not convenient to discount them with our banks here.

In such instances the bank drawn on has usually been willing to discount the acceptance, knowing their customers who have accepted.

Could we ask you to discount the acceptance enclosed, deducting the discount and remitting us the proceeds?

(*Reply*)

We have received your letter of the 13th instant, enclosing Trade Acceptance of the ——— Co. for $——, with the request that we discount same and remit you proceeds.

As we have never made this business a part of our activities, we regret very much that we will be unable to do as you request, and are, therefore, returning the acceptance to you herewith.

The attitude of a bank in the Middle West to whom an acceptance was sent for purchase is indicated in the following correspondence:

The item sent in yours of May 13th is rather a small item to handle, and if we handle it, it will have to be on the basis of a service charge rather than a discount, for the discount would not amount to enough to pay us to bother with it.

The amount of the acceptance is $27.23. I think we might take this for you if you care to return it, at $26.50, and even at that figure we are not anxious for it. There is no money in handling these small matters, unless we can get pretty fair pay for them.

Copy of Letter from a Massachusetts Trust Company

We return herewith trade acceptance for $64.35 signed by ——— Co. We would suggest the best plan would be for you to discount these acceptances at your home bank and they in turn will forward them to us for collection. We will gladly collect these acceptances for you at any time.

Copy of Letter from a National Bank in New York State

We are enclosing herewith trade acceptances enclosed in your favor of the 6th inst. as our Discount Committee does not feel disposed to accept them owing to the fact that the rating of the acceptors is not up to our standard.

Extract from Letter from a Trust Company in New York State

We return herewith the ——— Printing Co.'s notes amounting to $769.23 inasmuch as we are not at the present time making any loans, however *we are discounting the acceptances* you sent us, subject to collection charges which we will expect you to pay.

From the foregoing data and comments it appears desirable for each commercial firm or banker to use the particular kind of handling described herein which seems most advantageous and adaptable to the case in question.

CHAPTER XI

GENERAL METHODS OF COLLECTING OR DISCOUNTING ACCEPTANCES THROUGH THE BANKS

How Banks Treat Trade Acceptances.—For those who are in the habit of handling single-name paper through their regular banking channels, there will be little to learn in the general handling of trade acceptances through the bank. However, there are small differences, which will be understood by the banker, and better accommodations are obtained when they are employed, as well as a simplification of the routine of handling trade acceptances. These phases of the subject will be treated in this chapter.

A banker's point of view is presented in the following statement by the former secretary of a division of the American Bankers Association, who is now an official of a discount corporation and who is closely in touch with this subject:

> The fact that trade acceptances are superior to open book accounts does not mean that they can be negotiated in unlimited volume by the holder. Where the acceptors are names unknown to the banker, he, the banker, will depend entirely upon the offerer, and will limit the volume accordingly,—just the same as if application were made for a regular loan. The use of the trade acceptance will make collections more certain, but will not reduce the responsibility of the credit man either in the bank or in the business house.

When the drawer is known to be conservative and careful with his credits, his trade acceptances should have a better standing with the banks than notes of buyers, be-

cause customers' notes are not usually given for current accounts, whereas the trade acceptance must be for current obligations, as stated on its face. Since the acceptor is the party who is primarily responsible on the paper and is the one to whom the bank looks primarily for payment, these considerations will probably influence most banks in taking acceptance paper in reasonably large quantities. For it has been found that where the credits represented have been conservatively assumed, this obligation will be paid when due, and will not be subject to renewal, which is often the case with single-name paper of the sellers. Whereas single-name paper is based upon the accounts receivable of the seller, or borrower, and it is well known that bankers usually discount such collateral at least 50 per cent in making their loans, it is possible, after trade acceptances are better known to the banks and especially after experience shows that they are paid promptly by their borrower's customers, that a larger line of loans will be made to borrowers on trade acceptances than would be made on single-name notes based upon open accounts. However, at first, when discounting trade acceptances, the borrower should be conservative and not ask the bank to depart greatly from its regular loan rules on one-name paper based upon accounts receivable.

A prominent banker recently expressed himself as follows:

Many of our customers have the idea that we will be glad to have any acceptances they bring us, regardless of the standing of the acceptor. If this were so, it would simply mean that the seller of goods could obtain unlimited credit without regard to the security behind the loans. There is absolutely no reason for granting a customer a larger line of credit on acceptances than on single-name paper if the second name on the acceptance does not add to the security behind the instrument. We endeavor to impress upon each of our customers who present acceptances for discount the fact that the trade acceptance should only be

used where an open account would be extended and that to create other than a prime trade acceptance, signed by both a buyer and seller of responsibility, is to injure the trade-acceptance movement and ultimately to destroy the credit of the seller himself.

Rate of Discount on Trade Acceptances.—Conservatism will also prevail in regard to the rate of discount on the acceptances. Although, in normal times, the Federal Reserve Banks often give a preferential of up to one-half of one per cent to the member banks, it is not a general practice for the member banks to pass on this reduction and discount to their customers on trade acceptances.

It seems to be conceded that it takes more clerical and detail work to put acceptances through the banks for collection than checks, which are merely put through and paid at once on presentation by the banks drawn upon. But the acceptance has to be recorded by the banks through whose hands it passes, and held by the bank collecting it until the due date, when it is to be paid at the bank of the acceptor or other place of payment.

The action of the New York Federal Reserve Bank in eliminating the collection charge of one-fortieth of one per cent for collecting acceptance paper at out-of-town points has tended to make easier the work of the acceptance dealer in New York, and is conducive to a freer handling of acceptances.

Service Charges on Acceptances.—In addition to the discount rate, there is, of course, the exchange rate and a possible service charge on certain acceptances. The bank points to the fact that the extra work that it does in handling the acceptances should relieve the borrower from that much work in his own bookkeeping and collection departments, and, therefore, any extra work that the bank does should be paid for through a proper service charge by the borrower. Varying small differences in

charges will be made by banks until the charges become standardized and a general open market is established for acceptances, as in Europe, where the charges and discount rate are fixed by custom and supply and demand.

It is reported that the Federal Reserve Board contemplates a general codification of discount rates to a schedule to cover the following:

Paper maturing within 15 days, including collateral notes.
Paper maturing within 16 to 60 days.
Paper maturing within 61 to 90 days.
Trade acceptances maturing within 60 days.
Trade acceptances maturing within 90 days.
Bankers' acceptances maturing within 90 days.
Commodity paper maturing within 90 days.
Agricultural paper maturing within 90 to 180 days.

It is worth while for a large borrower or lender to keep in mind the difference in cost between borrowing money on interest and by discount, which difference is accounted for when it is understood that the interest is figured each month or period, while discount is figured at the time of the loan. The following table illustrates this point:

Interest cost	Discount cost
1 per cent per annum	1.010101 per cent per annum
2 " " " "	2.040816 " " " "
3 " " " "	3.092783 " " " "
4 " " " "	4.166666 " " " "
5 " " " "	5.263157 " " " "
6 " " " "	6.382968 " " " "
7 " " " "	7.526881 " " " "
8 " " " "	8.695652 " " " "
9 " " " "	9.890109 " " " "
10 " " " "	11.111111 " " " "

Trade Acceptances Which Are Eligible for Discounting through Banks.—As in the case of single-name notes, trade acceptances which differ in style or wording may

be discounted by banks, trust companies, or banking houses, at their discretion. However, to make acceptances eligible for rediscounting by Federal Reserve Banks, they must conform in form, wording, maturity, etc., to the rules of the Federal Reserve Board, which make trade acceptances eligible for rediscount for member banks by the Reserve Banks, or for purchase by them in the open market.

It will not be necessary to go into details in this chapter about the form and wording of trade acceptances, as they have been treated quite fully in other chapters which made plain that the Federal Reserve Board has not outlined an exact form of acceptance, although it has made it necessary to have certain wording, or the equivalent thereof, incorporated in the acceptance to make it eligible for discount by a Federal Reserve Bank. It has approved several different forms, three of which are reproduced in Chapter II.

Taking it for granted that the details of the acceptance, in make-up, signing, accepting, etc., are in accordance with the rulings, which have been carefully observed, and that the acceptance will be eligible for rediscount by the Federal Reserve Banks, we will examine how best to handle the trade acceptance in discounting or collecting through the banks or other medium.

Correct Plans and Time for Discounting Trade Acceptances.—As stated, a trade acceptance may be drawn for any length of time, the same as a note. A banker will discount only those that look safe to him, as he would with notes. He can discount a mercantile acceptance, even though it should still have over 90 days to run before maturity. However, a member bank cannot rediscount with a Federal Reserve Bank for a term of more than 90 days from maturity for a common merchandise trade acceptance, or for more than 6 months on one representing the sale of livestock or farm products.

Although trade acceptances can be discounted at a bank singly, it is usually preferable to gather them up to a round sum, according to their size and the size of the business account, in order to make arrangements with the bank at one time for all so offered.

When a bank becomes accustomed to handling trade acceptances for a borrower, a regular arrangement and rate can be made, the same as on a line of credit.

If the full benefit is to be derived from trade acceptances, it is obvious that they must be returned promptly by the acceptor, since to get the least cost for discount, it is necessary to discount them with as long a period to run as the bank will accept. When there are exchange or service charges, even though they be small, the greater length of time these charges can be spread over will minimize the cost of the loan per dollar. It is, therefore, desirable to discount the trade acceptances with longer rather than the shorter periods to run, as the discount or interest is, of course, charged only for the actual number of days for which the money is loaned.

Full details of recording the acceptances for discount or collection are treated in Chapter VII. The procedure of the bank is treated in Chapter XVI (since it does not particularly concern the seller), and the bookkeeping methods for the seller are handled in Chapter VIII, while plans of discounting through the regular banking and other facilities, either now, or in the future when the outlets are better developed, is discussed in Chapter X.

Methods of Collecting Trade Acceptances by the Seller through His Bank.—Collection is usually made through the drawer's (seller's) banking channels, and the acceptance is usually payable through the banking connections of the acceptor. This is similar to the usual bills receivable or payable transaction.

It will be understood that the acceptance, being made

payable on a certain date, has to go through as a collection item and cannot go through as a check, which is paid immediately on presentation at the bank on which it is drawn.

Occasionally banks treat the collection of acceptances similarly to checks; that is, they credit them at once on receipt for collection, and handle them as some banks do checks, allowing the depositor to draw against them at once and waiving any collection charges on the item, although charging interest until collected. This, of course, is entirely a matter for the bank's decision, and is somewhat similar to Canadian procedure, but the plan is not generally used in this country.

The usual method is for the bank making the collection to handle it as a collection item and to send it through to the paying bank, which in turn remits the funds to the first bank, which, when so received, credits them, less collection charges, to the account of the one from whom the acceptance has been received for collection.

Right of Banks to Charge Trade Acceptances to the Accounts of Their Customers.—Section 87 of the Uniform Negotiable Instruments Law provides that: "Where the instrument is made payable at a bank, it is equivalent to an order to the bank to pay the same for the account of the principal debtor thereon."

Any bank accordingly has the right in all but six states to charge trade acceptances to the accounts of the acceptors where the acceptors have specified on the acceptances that they are payable at the particular bank. The exceptions are the following: Georgia, Illinois, Kansas, Minnesota, Nebraska, and South Dakota.[1]

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[1] Georgia has not passed the uniform Negotiable Instruments Law. Illinois omitted Section 87 of the Negotiable Instruments Law. Kansas repealed Section 87 of the Negotiable Instruments Law. Minnesota inserted the word "not" in Section 87. Nebraska omitted Section 87 from the Negotiable Instruments Law. South Dakota omitted Section 87 from the Negotiable Instruments Law.

It is probable, therefore, that bankers in states other than these six will generally adopt the procedure of paying the acceptance on presentation on or after due date, when the proper signature of the depositor is thereon, providing the depositor has sufficient funds in the bank to meet the acceptance. When the acceptance contains a clause worded similarly to the special clause in the Standard Form (Figure 3), approved by the Federal Reserve Board on this point in the official *Bulletin* of July, 1918, it will not be necessary in any state to notify the acceptor or the bank in any way before the presentation of the acceptance. The opinion of the counsel for the American Bankers Association, as well as the opinion of the Board, seem to confirm this procedure.

Individual Methods of Collection.—Although it is seldom desirable to depart from the regular routine in financial matters, some drawers of acceptances hold the acceptance until the due date is near, and then send it directly, with a letter or notice, to the bank of the acceptor, asking it to remit to them directly in bank funds, less exchange charges. It is questionable whether this method can be used except with a limited number of customers. This is also true to a degree in discounting acceptances in the buyer's locality and was discussed in the preceding chapter.

Procedure and Rates in the Acceptance Market.—The rates in the open market for acceptances will, no doubt, be adjusted as they are in Europe on the basis of supply and demand, rather than on the money market. No set rates are now standard in this matter, and the general money market, together with class of the acceptance, the name of the acceptor, and the indorsers, will govern. It is not possible, that merely because a piece of paper is marked "acceptance," it will command a rate or a market not warranted by the class of financial standing of those

who will have to pay the paper when it becomes due. It is as true of acceptances as of other commercial paper, that the higher the standing of the acceptor and the indorsers, the better the market and rate it can command.

The procedure in the handling of trade acceptances in the open market will, of course, vary according to conditions. When the acceptance is sold in the open market, naturally a discount rate (or interest) is charged for the time it has to run. When conditions make it necessary, exchange charges are also added. Under special conditions, such as difficulty of collection, size of the acceptance, and other contributory causes, a service charge for handling is sometimes necessary. These charges will become more and more standardized, even though they may be a trifle high at inception.

It seems apparent, therefore, that each user of acceptances should carefully and patiently study the best methods of handling his acceptances until he decides upon the most satisfactory plan for his conditions and locality, and until the general methods and rates become more standardized, as they undoubtedly will be by wider usage.

CHAPTER XII

SHOULD INDUCEMENTS BE GIVEN TO BUYERS TO "ACCEPT"?

Three Plans for Introducing the Trade Acceptance.—The seller asks, "Why give an inducement to a man to pay his bills when they are due?" Some buyers reply, "Why should the buyer 'accept' without an inducement, unless he is forced to do so, either by the unalterable terms of the seller (or a combination of sellers in a certain line), or by custom, as is the case in Canada and Europe?"

As usual, to get results, the practical, not the theoretical side of the matter, must be considered. One phase should determine the final analysis and procedure, that is, what plan will most satisfactorily *produce results* for the seller, as well as for the buyer, and be *in accordance with proper usage and ethics.*

We should, then, consider the feasible means and the cost of various plans of settlement by acceptance, keeping clearly before us the fact that this does not concern purchases for spot cash or, usually, cash within 30 days. The general plans, as roughly stated in previous chapters, are:

Plan 1.—Under which the buyer is obliged to accept to get goods on credit.

Plan 2.—Under which the buyer has his free choice whether to accept or not, with no inducements—simply explanations and request to do so.

Plan 3.—Under which the buyer has his choice, but is offered a direct benefit, over open-account credit, for accepting.

Plan 1 is obviously the most simple and satisfactory to

the seller, since it results in his getting acceptances on all merchandise credit business and all ensuing benefits accrue to him without cost. It is the one advocated by the most conservative bankers and business men.

Investigation as to whether it is feasible for the majority of sellers to force the issue develops the fact that it it is rather rare (except in case of a monopoly or close combination of a trade with uniform terms) for a buyer to be obliged to acquiesce to fixed terms and be unable to get the goods elsewhere or do without them.

If the buyer can get the goods elsewhere and they are equally satisfactory, and if he is not "sold" on the trade-acceptance terms, the seller has sometimes been obliged to modify his terms or lose some of his customers to other sellers who do not make the same terms obligatory. It is also found that it sometimes makes it more difficult to get new customers against competition.

Plan 1 seems to be adaptable to and desirable for strong firms well intrenched in their customers' esteem and having a line with which they can get new trade on such terms.

Plan 2, making acceptance purely optional and without inducements, has been more or less successfully carried out by a number of old firms whose business is done with regular and unusually well-informed customers, and who obtain new customers through the prestige of their goods or reputation.

In the case of firms whose customers are not closely tied to them, or are only occasional and not regular, and who work under close competition for old or new trade, the mere explanation or request of Plan 2 does not seem to produce results in getting payment by trade acceptance in even 50 per cent of the cases. Plan 2 is often favored by the banks and credit men, but has been more or less of a disappointment when the percentage of acceptances accepted is considered.

Careful investigation among users of acceptances shows that the average business, seeking to close a majority of its credits by trade acceptance with Plan No. 2, succeeds, *under present competitive conditions,* very slowly, and although this is a regrettable condition, it will probably continue to be the case until the trade acceptance is much more firmly established in merchandise credit settlements than it is now.

Plan 3. In the present undeveloped stage of acceptance practice in this country this plan has proven the most successful for the average business to get a good percentage of its credit business closed by trade acceptances within a reasonable period of time. However, it necessitates adopting the principle of giving preferences for payment by acceptance, a practice with which some authorities disagree.

National Investigations Indicate Methods Successfully Used.—Several nation-wide investigations among the users of acceptances in America have shown that a considerable number, as well as those who receive the highest percentage of acceptances back from their customers, use inducements, such as extra time or percentage of discount or both, to obtain trade acceptances from their credit customers.

However, to carry out Plan 3 successfully, several important points must be carefully considered and analyzed. First, we should consider what are the benefits it is claimed both buyer and seller will receive through the use of acceptances, as briefly summed up here. Second, what inducements, if any, and how great, can the seller afford to offer for acceptance? Third, what kind of benefit, and how much, must be offered the buyer to induce him to depart from his usual open-account credits and "accept"?

It has been found necessary to get a nice balance be-

tween the needs of both buyer and seller to assure equity to them and success to the plan. To do this we should first examine on what grounds or basis of saving a seller could figure, in order to offset a special inducement for a buyer to sign the acceptance; and second, we should consider the buyer's benefits. These phases are treated in detail in the third section of this volume but will be summarized here.

Advantages to the Seller and Buyer by Use of Acceptances.—Advantages to the seller are claimed because the acceptance forms an accurate basis to figure his income upon; promotes better understanding with creditors; relieves salesmen from being collectors; increases the efficiency of the sales call; cleans up all accounts monthly: saves collection-department expense; causes the bank to handle details; minimizes interest on borrowed money; makes possible the discount of 100 per cent of good receivables; extends the available lines of credit; extends the field of discount; helps to supply the greater amount of working capital now necessary to do the same volume of business as formerly; makes possible a smaller financial operating cost for the seller through the need of less fixed capital; obviates high expense where accounts have been hypothecated; creates liquid reserve in case of need in contrast to "frozen" open accounts; minimizes friction and loss with slow-pay accounts by automatically making them pay as per terms; improves the average firm's relations with its customers; relieves the seller from the necessity of withholding from active use a "margin of safety" in cash to cover contingent losses; after acceptance, puts upon the buyer the burden of proving accepted charge incorrect; allows the seller to extend larger credits on the same working capital: may reduce discount charges at the bank; reduces unearned discounts taken by the buyer; reduces the time asked for, or taken, over regular terms;

reduces unfair cancellations and return of goods; increases the percentage of those discounting for cash; and it facilitates payment by the buyer as originally agreed.

Some reasons a buyer has for "accepting" are that he gets reflected benefits from those of the seller; is inculcated with better collecting as well as paying habits; saves in detail and bookkeeping work; is prompted to business-like methods of doing business; gets inducements, when offered, for signing the acceptance.

Grounds a Buyer Has for Asking Inducements.—Equally important, in the final analysis, are the reasons the buyer may advance for asking that a special inducement be offered to him in exchange for his voluntary acceptance. Some of these reasons advanced by buyers are as follows: He can buy elsewhere on "elastic" open account; he knows of the seller's benefits and expects to share them for abandoning his old easy credit customs and "accepting"; he does not understand the trade acceptance and doesn't want to unless there is "something in it" for him; he does not have to sign, if he does not want to; and he asks, if the cash buyer is entitled to a discount for paying cash, is he not entitled to ask for a benefit for paying by the next best method? When a buyer accepts and agrees to pay when due, he claims the right to be in class preferred to that of Tom, Dick, and Harry, who buy on credit and abuse the understood terms by paying when they please.

Consensus of Opinion for and against Inducements.—National investigation shows that bankers and credit men are about 60 to 70 per cent against inducement. Investigation shows that among manufacturers and merchants 50 per cent are for inducements; that salesmanagers and salesmen believe inducements necessary to win and retain their customers and sales, and that this should be figured in the price; and that most practical advertising

men favor an inducement to the buyer until he "gets the habit."

Mr. Wilson, the New York Agent for the Union Bank of Canada, says:

I am utterly opposed to the idea of offering any special inducements to the retailer to give acceptances. It is his duty to do this. The wholesaler gives the retailer credit. The retailer should acknowledge the debt. It would be an entirely pernicious practice to encourage or bribe the retailer in the form of a commission or in any other way.

President Cady of the Guardian Trust and Savings Bank, Toledo, says:

Many manufacturers and wholesalers are allowing "Acceptance Discounts," which permit the taking of discounts at the time of "Acceptance" and establishing acceptor on much the same basis as the purchaser for cash.

The president of a large manufacturing and jobbing concern made an investigation of trade acceptances among 23 firms who used them; in an article in a leading business magazine, he said:

We now have little difficulty in inducing our customers to "accept," particularly as we give a special trade-acceptance discount to them.

My own thought on this subject is that one of the important points in favor of the trade acceptance from the wholesaler's point of view is the ability to discount in order to secure immediately the money invested in the merchandise. Our regular terms on open accounts are 2/10 or net 60. We are allowing ½ of 1 per cent for a 60-day acceptance, on the theory that this additional discount is made up to us by the fact that on open accounts we pay 2 per cent for our money in 10 days.

The giving of special acceptance discount has been more effective in producing results for us than all arguments combined. We consider that the time buyer who refuses to make an outright saving when he can so readily do it invites inquiry into his good faith.

The Trade Acceptance Committee of the Massachusetts Bankers' Association, in a report on the subject, says:

> Trade acceptances may enable the buyer to purchase on better terms.
>
> It is not expected that open accounts for merchandise sales will be entirely eliminated, and many sellers will find it advantageous to offer special trade-acceptance terms. For instance, the regular terms have been, say, 2 per cent 10 days, net 60 days. These could be modified either by offering special discounts for trade acceptance or by apparently extending the time as follows: 2 per cent 10 days, 1 per cent 60-day trade acceptance, net 60-day open account. Or, 2 per cent 10 days, net 60-day open account, net 90-day trade acceptance.
>
> The seller would no doubt be glad to make such arrangements in many cases, and the buyer would receive a distinctly profitable advantage. The extension of time is not as radical as might appear because most buyers who do not take their cash discounts often delay payment for some time after the due date of the open account.

At a national conference on the subject, a man who has been especially practical and successful with trade acceptances covered the point as follows:

> I will offer a brief answer to the question, "Should special inducements be offered to the acceptor?"
>
> This question is debatable. It is contended that the cupidity of the buyer should not be appealed to, but, on the other hand, it must not be forgotten that we face real difficulties in bringing about reform in long-established business methods and that the matter must be handled in a practical way.
>
> In recognition of the superiority of the trade acceptance as a credit instrument, the Federal Reserve Banks will often take this paper from member banks at a rate of ½ of 1 per cent less than the ruling rate for other commercial paper of the same character.
>
> It is not probable that this preferential rate was provided in order that the banks or the seller might make an extra profit, but rather that the proper part of the inducement be passed along to the buyer in order to encourage the production of a greater volume of eligible commercial paper.

In giving a trade acceptance, the buyer has proved his good faith in that he has bound himself to pay an honest business debt in full when it is due. He has provided the seller with the means of effecting economy in his business and it would seem that this service may be recognized when prices and terms are made.

The "Trade Acceptance Catechism" compiled in 1918 by Dr. J. T. Holdsworth for the American Trade Acceptance Council says on this subject:

The buyer who closes his purchase with a trade acceptance, instead of leaving it on open account, improves his credit standing with the seller. He provides the seller with a means of liquidating his sales at preferential discount rates and so becomes a preferred customer on substantially the same plane as the cash discount buyer, and entitled to the best price and service.

The trade acceptance ought to go "over the top" on its own merits, but some houses have found it advisable, in order to introduce the trade acceptances, to offer buyers special trade-acceptance terms, thus making the advantages of giving trade acceptances definite and tangible to buyers.

The Executive Secretary of the American Acceptance Council, Robert H. Bean, said, in January, 1920:

The point is that the merchant should be convinced that for its own sake the trade acceptance is the better plan for him to follow in settling his accounts, and we should not allow him to believe that it is a cure-all, that there is any magic about it which will bring to him a better rate of discount or special privileges from the concern from whom he buys his merchandise.

At a semi-annual conference of a big retail association, it was apparent in a discussion of trade acceptances that some members believed that they were placed at a disadvantage, rather than benefited, by the signing of acceptances. An extract from the report of the discussion follows:

On the conclusion of Mr. W.'s address, Mr. S. opposed the use of trade acceptances by manufacturers and wholesalers in

their dealings with retailers. He emphasized the fact that an acceptance amounted to the same thing as a note, the retailer being bound thereto. The trade acceptance, Mr. S. said, was a fine thing for the banker and for the wholesaler, but he did not see how it could be made of any real advantage to the retailer.

In the first exhaustive investigation of the use of the trade acceptance in the United States by agents of the Federal Reserve Board, the payment of credit by trade acceptance was put in a similar class with discounting for cash. The following is a quotation from a report to the Federal Reserve Board:

The problem must be solved by the business man rather than the banker. What is required is that each trade find a solution which will be suited to its own requirements. It appears to the Board that between the cash-discount and the open-account sale there should be room for a special discount for sales against trade acceptances and that this discount should approach very nearly the discount granted for cash sales. If business men will attack the problem from this angle and the banks will lend their aid by granting preferential rates for trade acceptances, the problem can be worked out.

The following is the view of a prominent man in the credit field:

I see no fundamental nor business objection to the offering of special discounts to buyers, where necessary to get them to sign trade acceptance. I do think it would be undesirable to unduly extend the time for payment, as all extensions of time increase the credit risk, and I therefore prefer a special discount rather than extension of time as an inducement.

Bankers consider acceptances higher-class credit, as shown by this statement made by a Deputy-Governor of a Federal Reserve Bank:

Ultimately goods will be sold to those who demand long credit on the basis of higher prices over those who discount or sign trade acceptances.

It would appear that some *sellers* need greater accommodations than they get from banks and can afford to pay for them, or advertisements like those quoted below from one issue of a New York commercial newspaper would not appear daily in the papers all over the country:

WORKING CAPITAL

Your investment per dollar represents LESS in merchandise and material than ever before, therefore if you want to do the same amount of business you must employ MORE CAPITAL.

A large part of your money is tied up in accounts receivable—is it good business to wait until your customers pay their bills, before using these funds?

You don't have to wait, for we will cash your accounts receivable and accept repayment when customers pay you.

This is a low cost service and your customers are not disturbed or notified of our interest in the matter.

You really ought to know more about this financial assistance which has proven so valuable to responsible manufacturers and jobbers. When may our representative call?

———— INVESTMENT TRUST
CAPITAL $2,000,000

Bradstreet's says

"LACK OF CAPITAL" A CHIEF CAUSE OF FAILURE

For 24 out of the past 28 years, "Lack of Capital" has been the *chief* cause of failures—but for the past three years it has ranked only *third*, notwithstanding the unusual strain upon capital during recent years.

Certainly this improvement must be partly due to the enormous growth of the practice of turning into *immediate cash, dead, profitless* capital previously tied up in Accounts Receivable.

Under our plan, in a way, you increase your capital simply by releasing that part of it which is tied up in the Accounts of your customers, who do not even pay you interest. We let you collect the Accounts you sell us, without disturbing your customers.

Why divide all your profits with a Partner or Stockholders

in order to get more capital, if you have that capital right now in your business, all your own, tied up in your Accounts?

We put that money to work for you and avoid the handicap of "Lack of Capital." The useful object of our business is to help finance increased production of much-needed commodities—incidentally making added profits for all concerned.

Let us show you how!

——— CREDIT COMPANY

CASH CAPITAL $2,250,000. SURPLUS $450,000.

Methods Used in Getting Big Bulk Returned.—A dry-goods jobber gave 30 days extra time for acceptances and got $1,160,000 in acceptances from his customers in a year. A cotton brokerage house has given inducements for the past three years. A high-grade yarn and hosiery company gives ½ of 1 per cent discount for signing. A prominent paper house gives 2 per cent for signing with the order. A large lumber firm gives 2 per cent flat for signing, less 5 per cent per annum for interest charge. Members of a stove association give ½ of 1 per cent extra for signing. Members of a toy association give 1 per cent extra for signing. The percentage of firms giving inducements, as shown by questionnaires sent to users in the United States, shows the following distribution: those giving inducements—59 per cent; those not giving inducements—31 per cent; not stated—10 per cent.

It seems permissible, therefore, by present custom for each seller to consider his own case and adopt methods and terms best suited to produce permanent success in his particular field, in getting the greatest number of trade acceptances from his customers on mutually satisfactory terms. In these matters it is always desirable to move slowly and along conservative lines.

CHAPTER XIII

THE TRADE ACCEPTANCE AND THE RETAIL MERCHANT

Retail Possibilities of the Trade Acceptance.—It seems obvious that the broadest field for the use of the trade acceptance would be in the liquification of the credit sales of retail merchants to the ultimate consumer. This field is one with almost unlimited possibilities for the production of this kind of paper in every city, town, and hamlet of the country, if it can be convincingly proved that the trade acceptance is needed in handling retail credits and that the retail trade is a legal, legitimate, and practical source from which to draw the trade acceptance of commerce. This chapter will discuss the effect and experience through use of the trade acceptance in retail credit sales.

It will readily be acknowledged that the extension of credit to the consumer is more abused than the extension of credit to any other class of buyer and that the retail merchant suffers more than any other business man from this condition. It is also probably true that the retail credit buyer himself suffers greatly from the loose system of retail credits, for it is held that many habitual "slow pay" or "dead beat" credit buyers are fostered and created from the overextension of credit facilities to them. It is not, therefore, believed that the interests of the consumer would be prejudiced by signing retail trade acceptances.

An authority speaking of another angle of the retail credit says:

The handling of time-payment sales of household utilities and other useful devices has been for many years one of the loose ends of American business. The sale of articles on the time-payment plan has increased, as the safety and profit of this class of business have been demonstrated, to a gigantic total, but the methods of handling deferred payments and the financing of such business may be characterized as obsolete and uncertain.

Credit Necessary in Retail Trade.—Although purchases for cash are most desirable in any business transaction, it is probable that in no class of trade is the extension of credit more necessary to the practical carrying on of business than in the retail. It is next to impossible to carry on a majority of retail businesses on a cash or even an approximately cash basis. One reason is that numerous households only get cash through weekly or monthly salaries or at stated intervals or after harvest or the sale of certain goods or commodities. Therefore they find it desirable, if not absolutely necessary, to be "carried on credit" in the meantime. Another reason is the inconvenience to "regular customers" of paying cash for many small daily purchases.

Credit, therefore, is almost a corollary of retail business and it is of the highest importance to find plans to make the necessary retail credits as safe and liquid as those of the manufacturer or jobber of the most successful class. To emphasize the fact that the situation is far from satisfactory at the present time it is unnecessary to scan the "failure records" and note how large a percentage of them are in the retail trade, for we have the fact graphically brought to our attention by the retailers themselves in comments on the situation by their associations, which are in the best position to know the facts.

The Consumers' League, coöperating with the Associated Retail Credit Men of New York, prepared an article on

the subject of prompt payments of bills, of which the following are extracts:

The standard for classifying charge customers in most of the stores has been as (1) payment within one month good; (2) payment within two months, satisfactory; (3) payment within three months, poor; (4) payment within four months, unsatisfactory.

Who pays the costs of stenographers, secretaries, and of collectors who spend all their time in following up and dunning the delinquents? The number of charge customers in some of the largest department stores is above 100,000, which is from 50 to 75 per cent of the total business, and the slow payment of bills is limited to between 10 and 15 per cent of the charge customers. The 10 per cent of the customers who are slow paying have added to the costs to the other 90 per cent.

The majority of the stores reported that 75 per cent of the slow-paying customers are delinquent only through carelessness. To do away entirely with the charge-account privilege would greatly inconvenience the shoppers and perhaps hurt the stores.

Little doubt is felt that the public will give its coöperation if the need for prompt settlement of retail accounts on patriotic grounds is made clear to them. The advertising campaign conducted by the New York Telephone Company, to improve the character of its credits, has been cited as an example of effective advertising of this kind.

Comments by Authorities on Use of Acceptances for Retail Sales.—The head of a national association of retail merchants says:

At the present time the trade-acceptance movement is of no benefit to the retailer, unless ways and means can be devised by which the retailer can get the same benefit out of it as is derived by the manufacturer or wholesale distributor.

The trouble is that the trade-acceptance movement is going head downward.

An attempt is being made to start the big thing, whereas it is more important to do the small thing first.

A vice-president of the largest trust company in the country said:

In European countries, especially in France, the public has been educated in this idea for very many years. There the customer who buys on credit signs a slip for his purchases, which is virtually a trade acceptance. If such a custom can in time be inaugurated here, we shall have the foundation from which to work up to the manufacturer, instead of commencing with him as we are now trying to do. The simple signature of the customer to the charge slip made out by the salesmen is virtually an acceptance without a due date, but we might, it seems to me, make a beginning in that way.

The thin end of the wedge thus having been inserted, in spite doubtless of strong protests amounting to almost a revolution on the part of the stronger and fairer element of the community, I do not think that the retailer himself, and then the wholesaler and manufacturer, would have any legitimate excuse to stay out.

The Duty of Modern Business Science toward the Retailer.—Modern business science, if it does not find a practical way out of the credit quicksands for the retailer, will fail signally in its duty to business in general and, in particular, to the worthy host of retailers, who so assiduously purvey to the public's every need.

The nearer the merchant can approximate the methods of the banker in extending credit, the nearer 100 per cent safety and efficiency will he attain. The banker transacts only a part of his business for "cash," for his principal profits are from loaning his money. It would be undesirable for him to run on the "open charge account" system; no one would expect a banking system to succeed upon such a loose basis of credit. The keystone of the banking business is the paper held, which represents valid and binding promises by "customers" of the banks to pay at a fixed date a certain sum in money.

When a banker delivers cash, or its equivalent, he gets a legal, signed order or receipt for it (check, note, draft, or acceptance) to cover safely the credit he grants. The banker's first thought as to his credits is, "Are they liquid?

How quickly, fully, and cheaply can I realize upon them in case of need?" Does the retail merchant give sufficient thought and attention to these qualities of his credits? These are the banker's first consideration and upon them he judges the desirability of his "sales."

The retail merchant's error has been in allowing his credits to become frozen, not negotiable (liquid), and his banker, of course, has known it. This made his purchase of money from the banker difficult and expensive, because the banker usually did not get even approximately "prime" or liquid collateral in return for his cash. Therefore his credits had to be "carried" by his jobbers, often under expensive handicaps. The Federal Reserve Act and rulings of the Federal Reserve Board have shown the retailer a method to get paper which, if carefully taken from good credit risks, might furnish to the banker a basis of credit of very satisfactory negotiability and liquidity.

Discountability of Trade Acceptances Taken from Consumers.—The legitimacy of retail trade acceptances was apparently established by the Federal Reserve Board, as official interpreter of the Federal Reserve Act, in its first regulation, issued November 10, 1914, in regard to the discount policy on commercial paper. In speaking of bills of exchange, later specifically designated by it as "trade acceptances," this ruling says:

> They ought to be essentially "self-liquidating," or, in other words, should represent in every case some distinct step or stage in the productive or distributive process—the progression of goods from producer to *consumer.* The more nearly these steps approach the *final consumer,* the smaller will be the amount involved in each transaction as represented by the bill, and the more automatically self-liquidating will be its character.

From this it will be seen that, even before the Federal Reserve Banks were organized and over eight months before the ruling of July 15, 1915, which defined and lim-

ited the plan and scope of the "trade acceptance," the Board sanctioned the use of such paper in the "progression of goods from producer to consumer."

Informal Rulings upon Trade Acceptance Arising from Retail Credits.—In order to clear up any doubt in the mind of banker or merchant as to whether "goods" sold by a retail merchant to the ultimate consumer were a proper basis for a trade acceptance, which would command the same standing accorded to one arising from a wholesale transaction, an inquiry propounding this question was addressed by the author to the Federal Reserve Board. The answer of the Board, by Governor W. P. G. Harding, under date of July 19, 1917, herewith reproduced, seems to indicate that the trade acceptance arising from an absolute retail sale (but not on consignment or recoverable contract) is put on a level with any other type of commercial paper arising from the same grade of credit:

QUERY: If goods were sold to a consumer and he accepted a regular form of trade acceptance for same, would this be considered a trade acceptance the same as an acceptance of the buyer who expected to resell the goods?

In other words, if a retailer took an acceptance from his customers for clothes, groceries, etc., would this be considered as a trade acceptance and rediscounted as such by the Federal Reserve Banks if filled out as a regular trade acceptance in proper form?

ANSWER: Under the rulings of the Federal Reserve Board a bill of exchange drawn by the seller of goods and accepted by the purchaser of those goods, is a trade acceptance, regardless of whether or not the purchaser intends to resell the goods or to use them for his own purposes. Consequently, if, as you suggest, a retailer takes an acceptance from his customer for clothes or groceries, etc., the acceptance would be a trade acceptance within the rulings of the Board, and would be eligible for rediscount by a Federal Reserve Bank, provided it is otherwise eligible under the terms of the Federal Reserve Act and the regulations of the Board.

Subsequently the following correspondence took place:

QUERY: Under your letter to me of July 19, 1917, copy of which I attach, I recommended to the Guaranty Securities Corporation that they should arrange to have the dealer who sells an automobile to a retail customer take from such customer a trade acceptance for such automobile, and that these trade acceptances will be, according to your letter, eligible for rediscount benefits.

ANSWER: The Federal Reserve Board is of the opinion that a bill of exchange drawn by an automobile dealer on a retail customer covering a sale of an automobile to that customer is a trade acceptance within the meaning of the Board's regulations as stated in our letter of July 19, 1917, and also that it is a bill of exchange drawn against actually existing values and therefore not subject to the limits imposed by Section 5200 of the Revised Statutes and Section 13 of the Federal Reserve Act.

In the present chapter various phases of retail credits have been touched upon and the possibility of applying trade acceptances to them, together with opinions as to the legality of such procedure. In Chapter XXII detailed methods now in use and suggested for adoption by the retailer will be discussed.

CHAPTER XIV

BANKERS' ACCEPTANCE, DEFINITION AND FUNCTIONS

Bankers' acceptances, both foreign and domestic, have a function different from that of the trade acceptance but so valuable as to claim, along with the trade acceptance, the earnest attention and favor of the American business man, while being of much more intimate importance to the banker. In fact, at this time, the bankers' acceptances total in dollars to many times the aggregate of the trade acceptances discounted, accepted, or current in this country. Both have equally legitimate and valuable fields, as fully pointed out and defined by the Federal Reserve Act and the rulings of the Federal Reserve Board. A trade acceptance can cover only domestic merchandise sales, while bankers' acceptances can cover such dealings whether they were originated or concluded in this or a foreign country, as well as merchandise in warehouse or transit and not sold to or accepted by a buyer, besides other legitimate business transactions. It is expedient that the merchants, as well as the bankers and students of finance, study how the use of the bankers' acceptance may be profitably applied in the commercial transactions of the country.

Distinguishing Marks and Functions of the Bankers' Acceptance.—Bankers' acceptances are easily distinguished from trade acceptances. The unmistakable and fundamental difference is that the bankers' acceptance must be accepted by a "bank or trust company, or a firm, person, company, or corporation engaged in the business of grant-

ing bankers' acceptance credits,'' while a trade acceptance may be accepted by any ''company, firm, corporation, or person upon whom it is drawn.''

Except in a case in which a trade acceptance is drawn against a banker for goods sold to him, it is evident that an acceptance is accepted by a banker for the purpose of using his name as an aid, or means, to obtain or guarantee credit based upon such an acceptance. The basis of credit of the trade acceptance is, at least theoretically, the fact that it must be drawn for goods sold by the drawer to the drawee, or acceptor, although, in fact, the credit of the acceptor, indorsers (if any), and maker largely affects its standing. In a like manner the banker accepting the bankers' acceptances is the one to whom the holder looks for payment, and the banker's standing gives to this instrument its high standing.

Addition to Credit Instruments of the United States.— Any one of the three acceptances (bankers' domestic, bankers' foreign or trade) is valuable in its field, but the three together should put the finance of American credit business on an impregnable basis. This would only require that the business man use the foundation laid by the financial mind to its full capacity, in order to build up an edifice of domestic and foreign trade of almost inconceivable proportions, an achievement which would probably have been impossible without the addition to our other forms of paper of both the bankers' and trade acceptances.

As the oldest and, obviously, the most indispensable of the bankers' acceptances, the ''foreign'' has been used most freely, and in dollars and cents is preëminent at the present time. The bankers' domestic acceptance was not authorized under the Federal Reserve Board's first rulings, but later, under the ruling of September 7, 1916. Its value is so obvious to big businesses and banks that they have availed themselves of it freely, and its use and volume are

increasing rapidly, because it is favored by bankers and discount experts to cover business transactions of substantial amounts.

Acceptance Usage Understood by Bankers Familiar with Foreign Trade.—Since the American importer and exporter have enjoyed the full facilities of the Federal Reserve System in financing their foreign trade, there has been little hesitation to take full advantage of them. This quick grasp of their advantages has come about largely through the leadership and coöperation of the banks and bankers handling this class of finance. A banker well versed in foreign trade usage said:

> To those who have been engaged in foreign trade, it is difficult to understand that any extended arguments should be necessary to demonstrate the advantages that accrue to the merchant in closing his accounts by means of an accepted trade bill. It is a custom that has prevailed in both import and export trade probably from the time that ships first sailed the seas as carriers of trade. Without the trade bill, it would have been impossible to develop the foreign business of any country.

From coast to coast the big banks, and particularly those in the seaboard cities, have encouraged and assisted the business men in this movement for efficient foreign-trade settlements in a very helpful manner and with splendid vision and generosity of purpose. The following is quoted from the foreign-trade department of a technical journal, which, in speaking of benefits of the bankers' foreign acceptances, states:

> Prior to the outbreak of the European War, all financing of American foreign trade was ultimately transacted through London banks, which, of course, collected their toll for the service. Whether it was a Paterson manufacturer buying silk from Japan or a manufacturer in the Middle West selling tractors to the Far East, the banks of England financed and dominated all world trade because Sterling exchange was available in all parts of the world. In London no less than 18 discount banks, in-

cluding four incorporated companies and 14 private firms, with an aggregate capital in excess of $50,000,000, were the instruments of this great financial business, which is estimated to have cost American exporters and importers about $10,000,000 a year.

With the outbreak of the war, imposing new conditions, the London market was compelled to restrict its financial transaction and American financiers grasped the opportunity to free themselves of their dependence on Great Britain. Moreover, their position with reference to London had undergone a radical change in that they had become the lenders of billions to this market instead of its debtors. The acceptance, a form of commercial paper long in use abroad, had been made possible in the United States for the accommodation of merchants transacting both foreign and domestic trade through the rulings of the Federal Reserve Board under the Federal Reserve Banking Act.

Bankers' Acceptance Defined by Federal Reserve Act. —The definition of bankers' acceptance, as promulgated by the Federal Reserve Board, is herewith appended:

(*a*) Definition. A bankers' acceptance, within the meaning of this regulation, is a bill of exchange of which the acceptor is a bank or trust company, or a firm, person, company, or corporation engaged in the business of granting bankers' acceptance credits.

(*b*) Eligibility. To be eligible for purchase, the bill, which must have a maturity at time of purchase of not more than three months, exclusive of days of grace, must have been drawn under a credit opened for the purpose of conducting, or settling accounts resulting from a transaction or transactions, involving:—

(1) The shipment of goods between the United States and any foreign country, or between the United States and any of its dependencies or insular possessions, or between foreign countries, or

(2) The shipment of goods within the United States, provided the bill at the time of its acceptance is accompanied by shipping documents, or

(3) The storage within the United States of readily marketable goods, provided the acceptor of the bill is secured by warehouse, terminal, or other similar receipt, or

(4) The storage within the United States of goods which have been actually sold, provided the acceptor of the bill is secured by the pledge of such goods, or it must be a bill drawn by a banker or bank in a foreign country or dependency or insular possession of the United States for the purpose of furnishing dollar exchange. In this latter case the bank or banker drawing the bill must be in a country, dependency, or possession whose usages of trade have been determined by the Federal Reserve Board to require the drawing of bills of this character.

(*c*) Evidence of Eligibility. A Federal Reserve Bank must be satisfied either by reference to the acceptance itself, or otherwise, that it is eligible for purchase. Satisfactory evidence of eligibility may consist of a stamp of certificate affixed by the acceptor, in form satisfactory to the Federal Reserve Bank. No evidence of eligibility is required with respect to a bill accepted by a national bank.

(*d*) Statements. Bankers' acceptances, other than those accepted or indorsed by member banks, shall be eligible for purchase only after the acceptor has furnished a satisfactory statement of financial condition in form to be approved by the Federal Reserve Board and has agreed in writing with a Federal Reserve Bank to inform it upon request concerning the transactions underlying such acceptances.

The Federal Reserve Board in Regulation B, Series of 1916, defined and superseded the previous rules as to character of acceptances eligible for purchase in the open market; it is as follows:

Character of Bills and Acceptances Eligible

The Federal Reserve Board, exercising its statutory right to regulate the purchase of bills of exchange and acceptances, has determined that a bill of exchange or acceptance, to be eligible for purchase by Federal Reserve Banks under Section 14:

(*a*) Must not have been issued for carrying or trading with stocks, bonds, or other investment securities, except bonds and notes of the Government of the United States.

(*b*) Must not be a bill the proceeds of which have been used or are to be used for permanent or fixed investments of any kind,

such as land, building, or machinery, or for investments of a merely speculative character.

(*c*) Must have been accepted by the drawee prior to purchase by a Federal Reserve Bank unless it is accompanied and secured by shipping documents or by a warehouse, terminal, or other similar receipt conveying security title.

(*d*) May be secured by the pledge of goods [1] or collateral.

Further rulings with respect to the limitation in U. S. R. S. Sections 5200 and 5202 and Section 13 of the Federal Reserve Act cover the following:

1. *Limitations on the authority of member banks to make acceptances:*

(*a*) The limitation contained in section 5202 R. S. does not apply to acceptances made by member banks under the provisions of Section 13 of the Federal Reserve Act. (See *Federal Reserve Bulletin,* vol. II, p. 680).

(*b*) Acceptances made by a member bank and held by a party other than such bank are not within the limitations of Section 5200 R. S. (See *Federal Reserve Bulletin,* vol. II, p. 680.)

(*c*) Acceptances made by a member bank and held in its own portfolio are subject to the limitation of Section 5200 R. S. (See *Federal Reserve Bulletin,* vol. II, p. 680.)

2. *Discount of acceptances by member banks:*

(*a*) The discount by a member bank of a trade acceptance for the acceptor is subject to the limitations of Section 5200 R. S. (See *Federal Reserve Bulletin,* vol. II, p. 680.)

(*b*) The discount by a member bank of an acceptance for the drawer, or any other *bona fide* owner for value, is not subject to the limitations of Section 5200 R. S. (See *Federal Reserve Bulletin,* vol. II, p. 680.)

3. *Rediscount of acceptances by Federal Reserve Banks:*

(*a*) Acceptances rediscounted with Federal Reserve Banks are not subject to the limitations of Section 13 of the Federal

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[1] When used in this regulation the word "goods" shall be construed to include goods, wares, merchandise, or agricultural products, including livestock.

Reserve Act if they have been drawn at the time of or within a reasonable time after the shipment or delivery of the goods sold, and if there are reasonable grounds to believe at the time the bill is drawn that the goods are in existence in the hands of the drawee, either in their original form or in the shape of the proceeds of their sale. (See *Federal Reserve Bulletin,* vol. III, p. 195.)

(*b*) A bill of exchange rediscounted with a Federal Reserve Bank before acceptance is not subject to the limitations of Section 13 of the Federal Reserve Act, only if it is accompanied by shipping documents, warehouse receipts or other papers securing title, to the goods sold. (See *Federal Reserve Bulletin,* vol. III, p. 195.)

Broad Interpretation of Law Covering Bankers' Acceptances.—Many clauses favoring the judicious extension of the coverage of the act have been promulgated by the Board, such as the acceptance privilege for national banks when funds that result from acceptances are intended to produce merchandise for ultimate export, or when such moneys are to be applied to the purchase of goods to be shipped abroad from the United States. This judiciously affords a broader scope to the application of the Act, and should result beneficially to export trade.

"Dollar Exchange" for Foreign Trading.—In addition to clauses favoring the banker's acceptance based upon a merchandise transaction, the following clause is of interest in showing the admirable machinery supplied by the Federal Reserve Act to assist in handling our foreign trade.

Any member bank desiring to accept drafts drawn by banks or bankers in foreign countries or dependencies or insular possessions of the United States for the purpose of furnishing Dollar Exchange, shall first make application to the Federal Reserve Board, setting forth the usages of trade in the respective countries, dependencies or insular possessions in which such banks or bankers are located.

The Federal Reserve Board reserves the right to modify or on ninety days' notice to revoke its approval, either as to any par-

ticular member or as to any foreign country or dependency or insular possessions of the United States in which it has authorized banks or bankers to draw on member banks for the purpose of furnishing Dollar Exchange.

Bankers' Acceptances Not Favored When Inconsistent with Sound Banking Principles.—The Federal Reserve Board, while encouraging the legitimate use of the bankers' acceptance, both foreign and domestic, in general trade and in special lines or activities, has evidenced its cautious consideration of the future of the acceptance by its failure to grant the rediscount privileges of the Reserve Banks to 90-day bankers' acceptances issued under an agreement of the accepting bank to renew the acceptance for a given period at a fixed rate of discount. The Board has expressed the belief, in a circular signed by Governor Harding, that such a practice would be detrimental to acceptances, since it would tend to violate the fundamental principle of the acceptance theory, that acceptances are self-liquidating paper arising from merchandise transactions. The Board also believed this practice an infringement upon the well established principle of the rate of discount's being subject to conditions at the time of discounting, as is the usage in Europe, where rate of discount is based upon supply and demand for such paper.

Bankers' Acceptance to Finance Cotton Crop.—The Federal Reserve Board went to considerable lengths during the World War to encourage the adoption of 90-day acceptances, accepted by buyer's banks, to help finance the cotton crop which, at prices nearly three times as much per bale as formerly, had become a serious problem for the buyers and the banks.

Governor W. P. G. Harding, in advocating this, said in summing up:—

I think in the interest of the cotton broker, in the interest of the Southern grower, in the interest of banks in the country at

large, and in the interest of the Federal Reserve System, it is well to introduce this new plan if it can possibly be done. There may be some objections to it, but I have not received any communication from any one protesting against it.

State Laws and Local Rulings Governing Acceptances. —The state laws are also important in covering the acceptance procedure of state institutions. The New York Banking Law permits greater latitude than does the Federal Reserve Act. In New York state banks and trust companies may accept acceptances without security and without reference to the exportation of goods. It permits one of them:

> To accept for payment at a future date drafts drawn upon it by its customers, and to issue letters of credit authorizing the holders thereof to draw drafts upon it or its correspondents, at sight or on time, not exceeding one year.

The laws of other states vary considerably in limiting acceptance by state banking institutions, but all states, except Pennsylvania, make acceptances eligible for investment by savings banks.

Supplementing an order of the New York Clearing House, that bank acceptances may be sent through the clearing-house on the day of their maturity, a rule requiring clients to provide their banks with funds to meet all acceptances made for their accounts on the day of maturity has been adopted by leading banks in New York and other money centers.

The rule was embodied in the following resolutions, adopted at a meeting:

> Whereas, The Clearing House Committee of the New York Clearing House Association by resolution adopted July 29, 1918, effective August 1, 1918, has ruled that acceptances may be passed through the clearings on the day of their maturity; and
>
> Whereas, It has therefore become necessary that banks executing acceptances which are payable through the New York Clear-

ing House adopt some uniform rule covering the time and manner of reimbursement from their clients for such acceptances;

Resolved, That the accepting bank shall require from its clients that it be placed in funds to meet acceptances on day of maturity, either by,

(*a*) The deposit of clearing-house funds one day prior to maturity, or

(*b*) The deposit of cash or check on the Federal Reserve Bank of New York on the day of maturity, or

(*c*) Debit to the account of the bank's client on day of maturity against funds cleared on, or prior to, such date.

Procedure of Bankers' Acceptance.—As it would be manifestly impossible in a brief chapter or two to more than touch on the various phases of the bankers' acceptance, it will be necessary in this discussion merely to outline the theory of the bankers' acceptance, both foreign and domestic, and its main functions, and, so far as possible, to define the uses and application of the bankers' acceptance to business needs. Methods and forms will be covered in detail in the following chapter.

CHAPTER XV

BANKERS' ACCEPTANCE METHODS, AND FORMS OF LEADING BANKING INSTITUTIONS

Acceptances in Foreign Trade.—One of the most valuable phases of the study of the bankers' acceptance is that of the forms and methods of handling details employed by the big banking institutions of the country who are thoroughly experienced in the practical and profitable use of the bankers' acceptance. This chapter illustrates some of the typical methods of these banks. Many big banks and banking houses issue booklets explaining the use of the bankers' acceptance.

Typical illustrations of bankers' foreign acceptances, as cited by a representative New York national bank, showing also the connection of an American banking house located in a foreign country with a New York company which handles acceptance discounts, are given herewith. Below are copies of such bills, and, to illustrate the matter clearly, we will follow them through from the beginning until they are paid:

ACCEPTANCE COVERING EXPORTS

Bill of Exchange for $3,749.60.

NEW YORK, January 25, 19—.

Ninety days after sight of this First of Exchange (Second unpaid) pay to the order of *International Banking Corporation* ....Three Thousand Seven Hundred Forty-nine 60/100 Dollars United States Currency Value received and charge to ac-

count of letter of Credit I. B. C. 16/8721. Two automobiles S/S Kandahar to India.

(Signed) JOHN JONES & Co., Inc.,
JOHN JONES, President.

To the NATIONAL CITY BANK OF NEW YORK
New York City

Across the face of the draft is stamped:

Accepted
January 25, 19—
The National City Bank of New York
New York

and it is signed by one of the vice-presidents or the cashier of the bank. The draft is indorsed on the back by the International Banking Corporation.

In this case some one in India wanted to purchase two automobiles from Jones, who was unwilling to ship them without first receiving his money. The Indian went to his local bank, in this case probably the International Banking Corporation, and arranged with it to open a credit with the National City Bank against which Jones could draw at 90 days' sight. This being arranged, The National City Bank advised Jones that the credit had been established and he shipped his automobiles. Since the draft is made payable to the International Banking Corporation, Jones drew his draft as above and to it attached the bill of lading and other shipping documents and sent them all to the International Banking Corporation. The International Banking Corporation in turn presented all documents to The National City Bank, where, everything being in order, the draft was accepted and returned to the International Banking Corporation, the documents being detached and forwarded to the Indian bank arranging the credit. The International Banking Corporation discounted the draft for Jones, who thereby received the cash for his

automobiles. The International Banking Corporation sold the bill to the National City Company, thus getting their money back, and the National City Company sold it to an institution looking for a high-grade short-term investment.

In the meantime, the automobiles are presumably on their way to India, where they will probably arrive before the 90 days have elapsed. Shortly before the 90 days are up the Indian merchant places his bank in funds with which to meet the bill and they in turn transfer it to the National City Bank. At maturity the holder of the draft presents it to the National City Bank and receives payment for the full face amount.

It will be noticed that the National City Bank was not using any of its funds during this whole transaction; in fact, it received a commission for extending its credit. Jones received payment for his automobiles as soon as they were shipped. The International Banking Corporation got its money back when it sold the bill to the National City Company, which in turn was reimbursed when the bill was sold to the investor. Also the Indian will probably have his automobiles before being called upon to pay his local bank, which in turn will transfer the funds received from him to the National City Bank.

Acceptance Covering Imports

Bahia, the *5th January,* 19—. $18267.68

At ninety days' sight pay this First of Exchange (second and third unpaid) to the order of the *British Bank of South America, Limited,* Eighteen thousand two hundred and sixty-seven dollars and sixty-eight cents, Value of same drawn under Letter of Credit date 23/11/— against shipment of 1,500 bags cocoa per S. S. Raphael to New York, account of H. H. Harris.

To the National City Bank of New York
New York.

The bill is accepted just as in the first example.

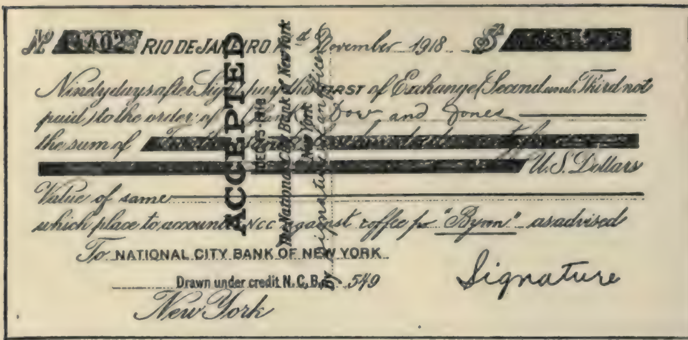
The following indorsements are on the back of the draft:

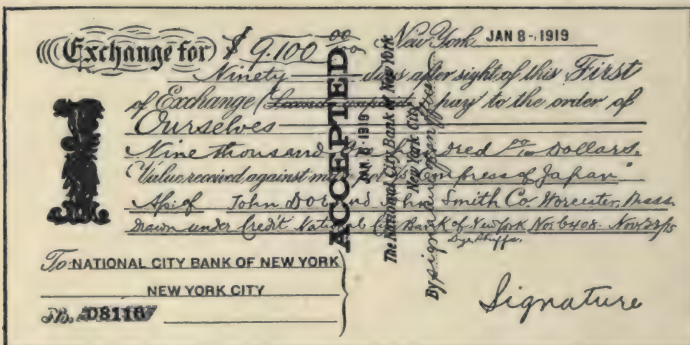
The British Bank of South America, Ltd.
The Bank of New York, N. B. A. Attorney
F. A. Klingsmith,
Assistant Cashier.

Indorsement guaranteed
The Bank of New York, N. B. A.,
F. A. Klingsmith,
Assistant Cashier.

In this case, Harris arranged with the National City Bank to permit Smith to draw on it. The credit being arranged, the bank notified Smith of that fact, either by letter or cable, depending upon the urgency of the matter. Smith, upon shipping his cocoa, sold his draft to the British Bank of South America, Ltd., at the prevailing rate for dollar exchange in Bahia. The British bank forwarded the draft and documents to its New York correspondent, the Bank of New York, with instructions to discount it in the open market after it was accepted. When accepted, the documents were detached by the National City Bank and the acceptance returned to the bank of New York, who sold it to the City Company. Harris's credit standing being of the highest, the shipping documents covering the cocoa were probably turned over to him, thus giving him 90 days in which to sell the cocoa and place himself in funds with which to pay the bill at maturity. If his credit is not good enough, the bank may retain the documents until the maturity of the draft or release them only upon deposit of approved collateral.

Since the acceptor is primarily liable at maturity, the investor holding these bills has an obligation of the National City Bank. This obligation is exactly the same as a cashier's check of that Bank, except it is payable at a definite date in the future instead of on demand. In ad-


No. [redacted] RIO DE JANEIRO 1st November 1918 $ [redacted]
Ninety days after sight pay this FIRST of Exchange (Second and Third not paid) to the order of Blank, Doe and Jones
the sum of [redacted] U.S. Dollars
Value of same
which place to account NCC against coffee per "Byron" as advised
To NATIONAL CITY BANK OF NEW YORK
Drawn under credit N.C.B. 549
New York
Signature
ACCEPTED
The National City Bank of New York


Exchange for $ 9,100 00/00 New York JAN 8 - 1919
Ninety days after sight of this First of Exchange (Second unpaid) pay to the order of
Ourselves
Nine thousand one hundred 00/100 Dollars.
Value received against mdse per S/S Empress of Japan
A/c of John Doe and John Smith Co. Worcester, Mass.
Drawn under credit National City Bank of New York No. 6408. Nov 23/18
To NATIONAL CITY BANK OF NEW YORK
NEW YORK CITY
No. 08116
Signature
ACCEPTED JAN 8 - 1919
The National City Bank of New York

FIGURES 15 AND 16. TYPICAL BANKERS' ACCEPTANCES IN FOREIGN TRADE

dition he has the liability of the indorsers and of the drawers of the drafts. The purchaser of the acceptance does not secure the shipping documents or any title to the goods against which the drafts are drawn.

The specimen bills shown in Figures 15 and 16 are from forms actually used by a prominent banking house which describes them as follows:

> It is not necessary that the bills exactly follow these forms.
>
> On the bill drawn in a foreign country the nature of the merchandise and, very often, the steamer's name and the markings are included in the description of the articles against which the

bill is drawn; the only purpose of this is to make it easy for the accepting bank to place the draft against the proper credit. The name of the firm—in this case, "Blank, Doe and Jones,"—usually represents the original purchaser or discounter of the bill. This purchaser is almost invariably either a bank or a discounting house.

On the bill drawn locally, the maker signs the bill and draws it under a credit which John Doe and John Smith Co. have arranged with the bank. The maker has this accepted and either sells or discounts it and thereby receives payment for the "Dyestuffs" sold to John Doe and John Smith Co. direct, or, if the credit is a guaranteed one, to the guarantors for settlement.

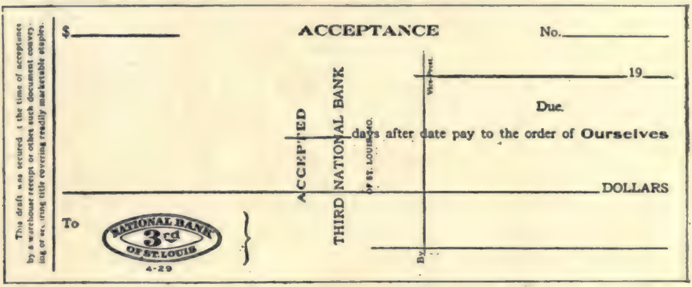


FIGURE 17. BANKERS' ACCEPTANCE FORM FOR DOMESTIC TRADE

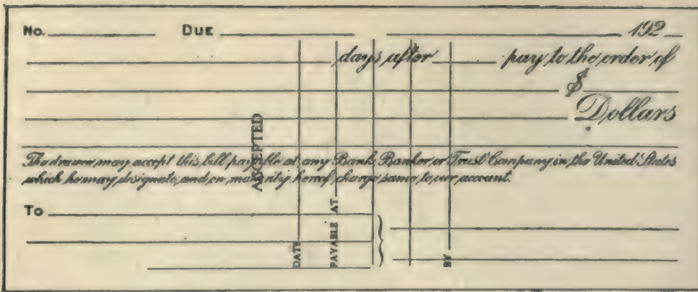
Method of a Western Bank in Handling Bankers' Domestic Acceptances.—Practically all commercial banks in the United States have forms and explanatory data on bankers' domestic acceptances and letters of credit. The national bank issuing the acceptance form illustrated in Figure 17 describes the handling of it through the bank as follows:

All drafts drawn on us for acceptance when received are handed to the department which takes care of this business.

Examination of documents, such as trust receipts and guarantees, is made and if the necessary revenue stamps are not already attached to draft they are placed thereon by us.

The draft is then duly accepted in accordance with agreement, the acceptance being signed by one of our Vice-Presidents.

The maturity is ascertained and the proceeds, less discount,


No. ____ Due ____ ____ 192__

____ days after ____ pay to the order of

$ ____

Dollars

The drawee may accept this bill payable at any Bank, Banker or Trust Company in the United States which he may designate, and on maturity hereof charge same to our account.

To ____

ACCEPTED

DATE

PAYABLE AT

BY

FIGURE 18. BANKERS' ACCEPTANCE FORM DESIGNED BY THE AMERICAN ACCEPTANCE COUNCIL

are credited to drawer's account and advice forwarded giving full particulars of the transaction.

A complete record of the document is then made, as follows:

Date received
Drawer
Date accepted
Date due
Rate of discount
When payable
Number, if any
Date drawer to be notified of maturity
Date of draft
Time
Amount
Amount of discount
Date retired

Memo. of any special facts, such as drawn under special letter of credit or any special agreements stated in the trust receipt. Also, if acceptance is sold, to whom.

This record is kept on a columnar ruled sheet but is not specially prepared for this purpose.

Proper entries are made in respective accounts, showing the customer's liability and our liability account of acceptances.

Ten days before maturity the drawers are notified by mail of the due date, and requested to place current funds with us in sufficient time to take care of the indebtedness. Two days before maturity is the usual time for receipt of such funds.

When acceptance matures and payments are received by us the documents are cancelled and retained in our files. The entries made in the respective accounts showing customer's and our liability are then reversed.

How a Merchant Can Use Domestic Bankers' Acceptances.—A description by a prominent Wall Street commercial-paper house, Bernard, Scholle & Company, of how the merchant can use banker's domestic acceptances in his business is as follows:

Smith & Co. are manufacturers of shoes in St. Louis. They buy leather from Brown & Co., of Boston, and at present when they desire accommodation to finance purchases of leather, borrow on their promissory note, from their own bank, the River National Bank of St. Louis, such funds as they require. The rate may vary, but at present will be between $4\frac{1}{2}$ and 6 per cent per annum, counting in the commissions paid, if any.

They decide to use acceptances in place of notes, and find various methods available. Acceptances can be used to finance either purchases or sales. We shall consider purchases first.

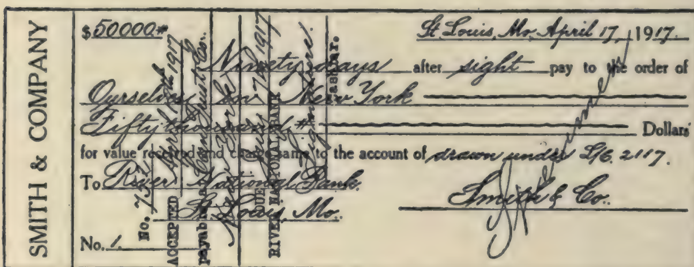
First method: The next time they require an advance to finance a purchase of leather (say $50,000) from Brown & Co., Smith & Co. apply to the River National Bank for an acceptance credit of $50,000.

At the same time Smith & Co. sign the regular form of acceptance agreement which the banks use, which states all the conditions of the credit, and further contains an undertaking on the part of Smith & Co. to place the bank in funds one to two days before the maturity of the acceptances which, of course, the bank will be obliged to pay at maturity. Smith & Co. obtain these funds to meet their obligation through the sale of this merchandise so that the paper is really self-liquidating.

When Smith & Co. receive the bill of lading and the bill for the goods from Brown & Co., they draw on the River National Bank for the requisite amount and present the draft and bill of lading to the bank, together with sufficient assurance to satisfy the bank that the proceeds of the bill will be used to pay for the goods in question. (This last is required by a ruling of the Federal Reserve Board.) The bank will then accept the draft and the acceptance will thereupon be eligible for rediscount at the Federal Reserve Banks (when it has not over 90 days' sight to run). Smith & Co. can then either discount this acceptance with the River National Bank or sell it in the open market. In either case, they must remit the proceeds to Brown & Co. If this payment is made promptly, Smith & Co. will secure any cash discount allowed by the latter.

At the time of making the acceptance or as soon as Smith wants the goods, the bank will return the bill of lading to Smith & Co., either on an open credit or against a trust receipt, according to the credit of Smith & Co. and the terms of acceptance agreement. There are various forms of trust receipts to suit various conditions. (A sample form applicable to one set of conditions is hereto annexed.)

The cost of this money to Smith & Co. will be the discount plus the acceptance charge of the accepting bank, say ¼ of 1 per cent flat, amounting on ninety-days' paper to a rate of 1 per cent per annum. The rate of discount of the bank's acceptance to-day should be between 3 per cent and 3¼ per cent, depending on the standing of the accepting bank, so that the total cost of the money to Smith & Co. would be between 4 per cent and


SMITH & COMPANY

$50000.00 St. Louis, Mo. April 17, 1917

Ninety days after sight pay to the order of Ourselves in New York

Fifty thousand # Dollars

for value received and charge same to the account of drawn under L/C. 2117.

To River National Bank, St. Louis, Mo.

Smith & Co.

No. 1

4¼ per cent as against from 4¼ to 6 per cent which their money cost them under the old system of single name paper.

That is, the merchant who pays only 4½ per cent on his notes to-day can get the money through acceptances at a net cost of about 4 per cent, and the merchant who pays 5 per cent or 6 per cent on his notes can get the money through acceptances at 4¼ to 4½ per cent. The large saving here is apparent.

A second possible method of doing this business is the method which has been used for very many years in financing business with foreign countries, and is considered preferable by the Federal Reserve Board for domestic business also. Under this method, the draft would be drawn by Brown & Co. instead of by Smith & Co. Smith & Co. would apply to the River National Bank for an acceptance credit of $50,000 in favor of Brown & Co., the credit to be against 90-days' sight draft with two copies of bill of lading attached, insurance certificate attached, and any other documents that Smith & Co. may desire. The bank immedi-

ately notifies Brown & Co. that it has opened a credit for Smith & Co. in favor of Brown & Co. for the sum of $50,000, under specified conditions. (A form of such acceptance agreement is appended herewith: Credit No. 2117.)

Various forms of agreement.—It should be noted that a form which is correct in one case may be deficient in another. These forms are given merely as illustrations and should not be copied for use. Banks almost invariably consult their own counsel before deciding upon the form of acceptance agreement, trust receipt, etc.

COMMERCIAL LETTER OF CREDIT

Credit No. 2117, River National Bank of St. Louis, Mo.,
March 10, 19—.

Messrs, Brown & Co.,
Boston, Mass.
Gentlemen:—

We hereby authorize you to draw on River National Bank of St. Louis, Missouri, for account of Messrs. Smith & Co., of St. Louis, up to an aggregate amount of fifty thousand dollars, available by your drafts at ninety days' sight against shipment of first grade sole leather to St. Louis, insurance effected in Boston.

Bill of lading for such shipments must be made out to the order of the River National Bank of St. Louis, unless otherwise specified in this credit.

Invoice and one bill of lading must be sent by the bank or banker negotiating drafts direct to the River National Bank of St. Louis, Missouri.

The remaining documents must accompany the drafts drawn on River National Bank of St. Louis, Missouri. The amount of each draft negotiated, together with date of negotiation, must be indorsed on back hereof.

We hereby agree with bona fide holders that all drafts drawn by virtue of this Credit and in accordance with the above stipulated terms shall meet with due honor upon presentation at the office of River National Bank of St. Louis, Missouri, if drawn and negotiated prior to July 10, 19—.

River National Bank of St. Louis,

SIGNED ——— SIGNED ———
Vice-President. Cashier.

N.B.—Drafts drawn under this credit must state that they are "drawn under letter of Credit No. 2117 Dated, March 10, 19—."

At the same time Smith & Co. sign the regular form of acceptance agreement, which the banks use for such purpose, containing, among other things, an engagement on the part of Smith & Co. to place the bank in funds one or two days before the maturity

of acceptance. (A form of such acceptance agreement is appended.)

Form of Acceptance Agreement Between Customer and Bank

To the

River National Bank of St. Louis

St. Louis, Mo., ——— ——— 19—.

Gentlemen:

Having received from you the letter of credit on ——————— account of which a true copy is on the other side, we hereby agree to its terms, and in consideration thereof we agree with you to provide in St. Louis, two days previous to the maturity of the bills drawn in virtue thereof, sufficient funds in cash, to meet the payment of the same with ——————— per cent commission, and we undertake to insure at our expense, for your benefit, against risk of fire or loss in transit, all property purchased or shipped pursuant to said letter of credit, in companies satisfactory to you.

We agree that the title to all property which shall be purchased or shipped under the said credit, the bills of lading thereof, the policies of insurance thereon and the whole of the proceeds thereof, shall be and remain in you until the payment of the bills referred to and of all sums that may be due or that may become due on said bills or otherwise, and until the payment of any and all other indebtedness and liability now existing or now or hereafter created or incurred by us to you on any and all other transactions now or hereafter had with you, with authority to take possession of the same and to dispose thereof at your discretion for your reimbursement as aforesaid, at public or private sale (with the right on your part to purchase at any such sale), without demand or notice, and to charge all expenses, including commission for sale and guarantee.

Should the market value of said merchandise in St. Louis, either before or after its arrival, fall so that the net proceeds thereof (all expenses, freight, duties, etc. being deducted) would be insufficient to cover your advance there-against with commission, and interest, we further agree to give you on demand any further security you may require, and in default thereof you shall be entitled to sell said merchandise forthwith, or to sell "to arrive," irrespective of maturity of the acceptances under the Credit, we being held responsible to you for any deficit, which we bind and oblige ourselves to pay you in cash on demand.

In case we should hereafter desire to have this credit confirmed, altered or extended by telegraph (which will be at our expense and risk), we hereby agree to hold you harmless and free from responsibility from errors in telegraphing, whether on the part of yourselves, or your agents, here or elsewhere, or on the part of the telegraph companies.

This obligation is to continue in force, and to be applicable to all transactions, notwithstanding any change in the composition of the firm or firms, parties to this contract or in the use of this credit,

whether such change shall arise from the accession of one or more new partners, or from the death or secession of any partner or partners.

It is understood and agreed that if the documents representing the property for which the said credit has been issued are surrendered under a trust receipt, collateral security satisfactory to the River National Bank, such as stocks, bonds, warehouse receipts or other security, shall be given to the River National Bank, to be held until the terms of the credit have been fully satisfied and subject in every respect to the conditions of this agreement.

It is further understood and agreed in the event of any suspension or failure, or assignment for the benefit of creditors on our part, or on the non-payment at maturity of any acceptance made by us, or of the non-fulfillment of any obligation under said credit or under any other credit issued by the River National Bank of St. Louis on our account, or of any indebtedness or liability on our part to you, all obligations, acceptances, indebtedness and liabilities whatsoever shall thereupon, at your option then or thereafter exercised, without notice, mature and become due and payable.

We further agree that should we consent to any overdrafts under said letter of credit or authorize payment or acceptance of bills drawn thereunder with irregular documents attached thereto, this agreement shall be fully binding upon us with regard to such overdrafts and other bills and the documents connected therewith and our obligation to pay to you the amount thereof and your title to the property purchased or shipped in connection with said bills and the bills of lading therefor and the policies of insurance thereon and all the proceeds thereof, to all intents and purposes as if said bills had been drawn and negotiated in strict conformance with said letter of credit. And we further agree to hold you in no wise accountable for any acts of any person or persons which may be prejudicial to the documents accompanying the bills drawn under the letter of credit referred to, and agree that this obligation shall remain in full force and shall in no wise be affected by the invalidity of or any imperfection in such documents.

We assume all risk of the acts of the users of said letter of credit as our agents in all respects; and we agree that you shall not be held responsible for the correctness, genuineness, or validity of any documents mentioned in or provided for by said letter of credit, or for any non-conformance, fraud, error, or falsity therein or for the description, quantities, quality, or value of the property represented thereby, or for breach of any contract between users of said letter of credit and ourselves or for any error or delay in telegraphing or cabling at our request in connection with said letter of credit or any transactions thereunder, and that the same shall not be any defense against our obligation under this agreement, and that we will indemnify you from and against all loss and liability resulting therefrom.

(Signature) ——————

Upon receipt of the above-mentioned letter of credit from the bank, Brown & Co. assemble the goods for shipment, obtain their

bills of lading from the railroad, obtain their certificate of insurance from the insurance brokers, and the other necessary papers, and are thereupon able to pay themselves by means of drawing a draft on the St. Louis bank at 90 days' sight and attaching the required documents. This prompt payment will, of course, entitle Smith & Co. to the cash discount granted by Brown & Co. Brown & Co. may either discount this at their bank, crediting the proceeds to the account of Smith & Co., or they can forward the draft with documents to an agent for acceptance and sale. The agent will then present the draft to the River National Bank and, when accepted, will sell the same in the open market, remitting the proceeds to Brown & Co., who will credit the same to the account of Smith & Co. The bill of lading will be delivered to the bank at the time of acceptance and will be delivered by the bank to Smith & Co., against the trust receipt or upon open credit as outlined above. The cost of the money under this method to Smith & Co. would be the same as outlined above.

Under this second method it will be noticed that while Brown & Co. receive immediate payment for their goods, and do not extend credit in that way, they remain contingently liable as drawers of the bills, and thus lend the credit of their name until the bills are paid.

To make bankers' acceptance eligible for rediscount by a Federal Reserve Bank, when the accepting banker is not a member of the Federal Reserve System, the following forms of certificate should be affixed by rubber stamp by state bank, banker, or a trust company, for the purpose of showing that an acceptance is eligible for rediscount at the Federal Reserve Banks.

Indorsements on Foreign and Domestic Bills

(*On Export or Import Bill*)

This acceptance is based upon a transaction involving the exportation or the importation of merchandise.

....
(Name of Acceptor)

(*On Domestic Shipment Bill*)

At the time of acceptance, this bill was secured by shipping documents evidencing the domestic shipment of goods against which it was drawn.

....
(Name of Acceptor)

(*On Warehouse Bill*)

At the time of acceptance, this bill was secured by documents, conveying or securing title, covering readily marketable staples stored in the United States.

....
(Name of Acceptor)

Many modifications of the foregoing forms and methods used by other banking houses might be quoted, but bankers will do well to study carefully and use individual judgment and advice in their particular cases. The general methods will be indicated by the foregoing procedure.

CHAPTER XVI

RECORDS OF ACCEPTANCES KEPT WITHIN A BANKING INSTITUTION

Methods of Various Banks in Handling Trade Acceptances.—By checking up the methods used by national banks, trust companies, and banking houses throughout the United States and their handling of acceptance records through their banks, it has been found that they have not had trade acceptances coming through their institutions in sufficient quantities to warrant specially segregated records. In fact, for several years banks, except a few of the largest, have reported that they handle the trade acceptances that they receive for collection or discount by the usual methods employed for notes or other commercial paper which their customers offer them.

Many of these bankers have suggested that later, when acceptances become more numerous, they will prepare and use a method of record to eliminate multiplication of detail. To illustrate, in 1918 one of the leading banks of the West, which handled a substantial amount of acceptances, reported the mechanical details of handling acceptances practically as follows:

> Acceptances are taken from the customer, discounted at rate of interest agreed, to which is added any collection charge, in accordance with Clearing-House rules, and the proceeds credited to customer's account.
>
> The item is then registered in a record, showing to whom sent and from whom received, and ten days prior to maturity forwarded for collection. It is also the custom to add to interest charge the time in transit necessary to return the funds to our bank.

The item is forwarded for collection as we would send any other draft but is not handled in any sense as a cash transaction.

Advices from a Boston bank, handling a moderate volume of acceptances, stated:

I know of no change in the situation since I wrote you a year ago. While the volume of our trade acceptances has increased, it has not yet become sufficiently large to warrant the installation of a specific system for handling them. I think this is the situation with other Boston banks. Likewise, with bankers' acceptances we have developed no new ideas.

A Cincinnati national bank which handles many acceptances made the statement that they had no special system for handling trade acceptances but put them through the loan registers just as they would all notes. They also stated that they are looking forward to the day when the volume of trade acceptances may be large and they have considered two plans to handle such an increase. One plan is to furnish the customer with a loose-leaf ledger sheet giving a detailed description of the acceptances discounted (this ledger sheet to be used as the bank's permanent record), the customer to fill in the sheet and thus save the bank that much clerical detail. The second plan is intended to save time and labor in calculating interest and would be operated in the following way. No interest is calculated when the acceptances are brought in. A daily record is made of the total amount of a customer's unpaid acceptances and on the total thus shown interest at the current rate is figured daily in much the same way as interest is figured on a customer's daily deposit balance. This bank has not worked out the details on these plans and will not do so until the volume of acceptances justifies adopting a new system.

A Detroit bank well posted on acceptance procedure has stated that their volume of trade acceptances has not been

THE BANK OF CALIFORNIA
NATIONAL ASSOCIATION
SEATTLE

CREDIT LIMIT 100,000.00 { covering loans & Discounts
AUTHORIZED LIABILITY 140,000
RATE 7%
NAME A.B.C. Co. &c
Sundry Discounts

DATE 1919		MAKER	LIABILITY AS ENDORSER DR. AMOUNT	LIABILITY AS ENDORSER CR. AMOUNT	BALANCE	DATE		ENDORSER	LIABILITY AS MAKER DR AMOUNT	LIABILITY AS MAKER CR AMOUNT	BALANCE
Nov	1	Little & Co.	6750 31		6750 31	Nov	1	1st nat. b/c accep.	6750 31		6750 31
	3	James & Sons	631 50		7381 81		3		631 50		7381 81
	10	Smith Bros	3740		11121 81		10	Common b/c	3740		11121 81
	12	Little & Co		6750 31	4371 50		12			6750 31	4371 50
	15	George & Co	9327		13698 50		15		9327		13698 50
	25	James Sons		631 50	13067 –		25			631 50	13067 –
	28	Coonley Bros	5023 80		18090 80		28		5023 80		18090 80
	28	Smith Bros		3740	14350 80		28			3740	14350 80

THE BANK OF CALIFORNIA
NATIONAL ASSOCIATION
SEATTLE

CREDIT LIMIT 150000.00
AUTHORIZED LIABILITY 200000.00
RATE 8%
NAME X.Y.Z. Co
Sundry Discounts

1919		MAKER	LIABILITY AS ENDORSER DR AMOUNT	LIABILITY AS ENDORSER CR. AMOUNT	BALANCE	DATE		ENDORSER	LIABILITY AS MAKER DR AMOUNT	LIABILITY AS MAKER CR AMOUNT	BALANCE
Nov	3	Total discounts	3752 11		3752 11	Nov	3		3752 11		3752 11
	4	"	4120 57		7872 68		4		4120 57		7872 68
	5	"	8456 30		16328 98		5		8456 30		16328 98
	5	" paid		5201 20	11127 78		5			5201 20	11127 78
	7	" Dis	4349 16		15476 94		7		4349 16		15476 94
	10	"	2170 22		17647 16		10		2170 22		17647 16
	10	" pd		3921 40	13725 76		10			3921 40	13725 76
	12	" Dis	3340 23		17065 99		12		3340 23		17065 99
	13	" pd		8020	9045 99		13			8020	9045 99
	14	" Dis	1640 17		10686 16		14		1640 17		10686 16

FIGURES 19 AND 20. TRADE ACCEPTANCES RECORD SHEETS OF THE BANK OF CALIFORNIA

sufficient to necessitate devising the specific forms or records for handling them through their discount cage. They stated that possibly acceptances would be eventually handled as something of a cross between a check and note, taking from the note its characteristics of futurity and from the check those of a demand obligation when the maturity date arrived. In this case they suggested that a tickler system should be used to group maturity dates, similar to the present method of tickling notes. They also predicted that the acceptances would be handled in a manner similar to the present method of handling checks, as the ruling in most states allows charging up the acceptance against an account, and that these methods would make comparatively simple the forwarding and collection of maturing acceptances.

The discount companies do not keep any special records for trade acceptances, as they are not handling them in large numbers. They deal principally with the trade acceptances of firms which, in many cases, are doing or have done more or less of a banking business, or which are known and file statements with member banks or with the Federal Reserve Bank, thus making the rediscount of their acceptances more easy and facilitating the handling of their paper in the open market.

Forms for Handling Trade Acceptances by a Western Bank.—A description of methods and filled-in record sheets used by the Bank of California, of Seattle, Washington, which handles a considerable volume of trade acceptances, follows:

Figure 19 illustrates our method of handling items of large amounts and where only a few items are discounted. These are handled through our books the same as any discounted paper.

Figure 20 covers the account of a firm discounting a great many acceptances of small amounts. We run these items through our ledger as totals for each day's transactions. The separate items are entered in our discount register, but are not put in

the diary for due date, being filed as to due date in the "XYZ Co." file of discounts which is kept in "Due To-day" and is examined every morning for maturities.

For small acceptances we make a minimum charge of 25 cents each, which does not include any charge that may arise through collection; we debit the customers' accounts with any expense that we are out in obtaining payment.

Work on Records by a Committee of the American Bankers' Association.—Although many prominent bankers have considered and, to a certain extent, worked on the record systems, there has not been any general consensus of agreement as to the most practical plans. Some time ago a committee of the American Bankers' Association went carefully over the methods of making records and devised some unique and commendable suggestions, to be further acted upon by the committee and the association in general. As these plans were never finally approved or disapproved, they are quoted herein merely as suggestions for bankers needing more detailed plans for handling trade acceptances, or for students of the subject, to consider and elaborate. That full agreement with these plans was not obtained is evident from comments on their details from a well posted Boston banker, who suggests sundry changes. At the same time other suggestions by a Cincinnati banker, quoted heretofore, might work as remedies to this criticism, in that the balances might be considered daily and interest rates figured thereon as are the balances on customers' accounts, which are credited at current daily rates. The first banker stated that these proposals were admirable in many ways, but that the subdivision would not be practicable. He objected to the system of handling the trade acceptances as a whole, with interest the same as on a demand loan, since, when a bank rate fluctuated, the bank would not agree to a permanent rate for a long period. He also questioned the charge of

interest by the month on the daily balances for the trade acceptances on account when many small trade acceptances were purchased from one depositor, because they and the large acceptances could not always be handled on the same basis. This banker also suggested that the collection forms should not be confused with the discount department system, although he thought there was a good chance for the improvement of many discount-department plans on account of the rapid development of rediscount, bankers' acceptances secured and unsecured, etc.

Suggested Forms for Record of Trade Acceptances through Banks.—The suggestions of the bankers' committee, made in rough form, follow:

The Committee appointed to suggest methods for the efficient handling of Trade Acceptances has very carefully considered this matter, and does not find any difficulty in handling these acceptances in banks except in the large number of discount calculations which would be necessary should the use of these Acceptances become general.

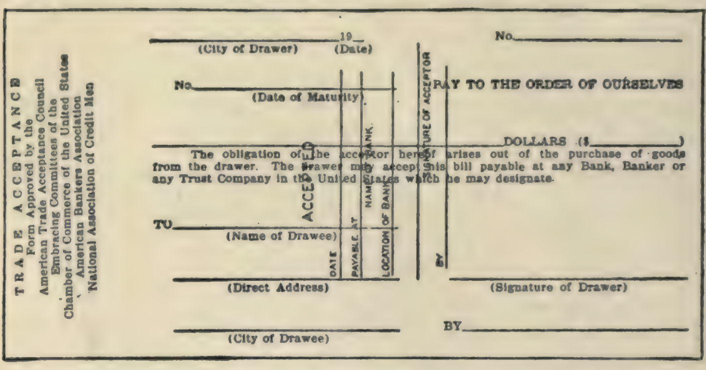
We believe that it would be best, instead of discounting these Acceptances, to purchase them from the owners and figure running interest, making charges for same, together with exchange charges, once each month.

If this procedure would be acceptable, we would suggest the following method for handling them:

Give each customer selling any quantity of these Acceptances, a number. When such customer would offer Trade Acceptances for sale or discount, the total amount of such Acceptances would be entered on the offering book, and his account on the individual books of the bank credited with the amount of such total. The number of the customer should then be placed on the reverse side of the Trade Acceptances as follows: T. A. #1. An account would then be opened in the liability ledger as follows: (Supposing a man's name was John Smith, address 1101 E. Main St., Richmond, Va.) "John Smith, 1101 E. Main St., Richmond, Va., Trade Acceptance account #1."

The Trade Acceptances purchased would then be entered in detail on the liability ledger, from a sheet of which we make a

part of this report. The Trade Acceptances, after having been so listed, would be delivered to the Collection Department and forwarded to the place of payment for collection. The entry covering the purchase of these Acceptances would be Trade Acceptances debited on the general ledger under an account so styled, and John Smith credited on the individual books.



TRADE ACCEPTANCE
Form Approved by the
American Trade Acceptance Council
Embracing Committees of the
Chamber of Commerce of the United States
American Bankers Association
National Association of Credit Men

_______ 19__
(City of Drawer) (Date)

No.______
(Date of Maturity)

No.______

PAY TO THE ORDER OF OURSELVES

_______ DOLLARS ($_______)

The obligation of the acceptor hereof arises out of the purchase of goods from the drawer. The drawer may accept this bill payable at any Bank, Banker or any Trust Company in the United States which he may designate.

ACCEPTED

DATE

PAYABLE AT

NAME OF BANK

LOCATION OF BANK

SIGNATURE OF ACCEPTOR

BY

TO______
(Name of Drawee)

(Direct Address)

(Signature of Drawer)

(City of Drawee)

BY______

FIGURE 21. ACCEPTANCE FORM RECOMMENDED BY THE AMERICAN BANKERS' ASSOCIATION COMMITTEE

As the Trade Acceptances were paid or returned, the Collection Department would in turn advise the Discount Department, and those paid would be credited to the Trade Acceptance account, and those returned unpaid charged against the seller's account and credited to the Trade Acceptance account on the general ledger and the liability book kept in the Discount Department.

By this method you will see that the balances outstanding would change from day to day. At the end of the month, interest on the average daily outstanding amount of Trade Acceptances purchased would be charged against the account of the seller together with all exchange charges incidental to the collection of these items.

The reason that these accounts should be given a number is that the Collection Department would send them out for collection and their records would be made from the numbers. For instance, under the example above mentioned, the record of the Collection Department would show that Trade Acceptance account #1 would be credited with the proceeds of any one of them

Form No. 55 (Yellow)

MERCHANTS NATIONAL BANK, Richmond, Va.

No. 7535

Correspondent

NO PROTEST

Date Sent	Payer	Amount	Due	TO	Your date or number

Form No. 55 (Pink)

No. 7535

Sent to

NO PROTEST

Date Sent	Payer	Amount	Due	CREDIT

Form No. 55 (White)

MERCHANTS NATIONAL BANK, Richmond, Va.

Please refer to our number

No. 7535

To

We enclose herewith for collection the item

Form No. 55 (Blue)

No. 7535

DEBIT

NO PROTEST

Date Sent	Payer	Amount	Due	ENDORSER

FIGURE 22. TRIPLICATE ACCEPTANCE COLLECTION BLANKS RECOMMENDED BY THE AMERICAN BANKERS' ASSOCIATION COMMITTEE

paid, instead of John Smith's Trade Acceptance account. The Discount Department would be advised from day to day the numbers under which the various Trade Acceptances were sent out as collections. They would also receive advices of credit of those paid and those which were returned unpaid would be delivered to them in order that proper entries be made. The Collection Department would also advise the Discount Department the amount of exchange charges, protest fees, etc., which would be collected from the seller of the acceptances.

We would suggest that the form of Trade Acceptances, as

Form No. 55 (Postal Card)

The item described below has been received from the Merchants National Bank of Richmond, Va.

By

and entered for collection, their instructions noted

NO PROTEST

Date Sent	Payer	Amount	Due

PLEASE SIGN AND RETURN BY FIRST MAIL.

FIGURE 23. COLLECTION NOTICE RECOMMENDED BY THE AMERICAN BANKERS' ASSOCIATION COMMITTEE

shown on the enclosed [Figure 21], be made uniform throughout the country. The only addition to these forms that we think necessary is that there should be some stipulation thereon by which the Acceptor should agree to stand for the charges incidental to the collection of these items. We would therefore suggest that the triplicate system of collection blanks be used, a sample of which we enclose herewith. The advantages of this system are many and we take the liberty of mentioning one or two very apparent ones when used in connection with the above-mentioned suggestion.

The yellow sheet can be given to the Discount Department in order that they may secure information as to the number under which various Trade Acceptances were forwarded for collection, and it will also answer as a receipt to the Discount Department

for these items and can be filed by them in order that at any time they might prove the Trade Acceptance account by merely adding up the amounts indicated on these slips, as the total of these slips should equal the amount of Trade Acceptances outstanding.

The pink sheet would be given them upon date of payment, or if the item was returned, and from this slip all entries would be made in the individual account on their liability ledger. The Discount Department would also indicate on these pink slips the exchange charges, etc.

The blue slips of course would not come to the Discount Department, but would be the charge entry against the correspondent to whom those items were sent for collection.

We do not think it necessary to describe the white sheet, as this will speak for itself.

The form of liability ledger of course could be used should the bank desire to discount each individual acceptance. We fear, however, as indicated at the outset of this report, that should banks insist upon discounting these Acceptances, it would be a very tedious task for the Discount Department, and nothing would be saved by this method. We understand that in Canada they make a practice of discounting these Acceptances. We believe, however, that in the United States, with the tremendous volume of business done, that Trade Acceptances would not become popular in banks on account of the large amount of extra detail work necessary, if they are discounted, while, if the interest were figured on running time, or on the same basis as call loan interest is now figured, this would assist in making them become popular.

This report, of course, is a brief summary, and can be added to by suggesting forms on which these Acceptances could be offered by the customer. Or, the liability ledger might be made in triplicate, in order that the sellers could secure the total monthly statement of their transactions with the bank during the month. Of course, it is entirely possible to have other forms which would give the bank the total acceptances handled for each Acceptor, etc., but we do not think this would be necessary, as the bank is more vitally interested in the amount of Trade Acceptance purchased from each customer.

If a customer is discounting his own paper at the same time that he is selling the Trade Acceptances, the total amount of trade acceptances outstanding at any time should be posted on his ac-

count in the liability ledger, showing the amount for which he is liable at all times, both contingent and direct.

Form of Bankers' Acceptances Employed in a Large New York Trust Company.—The following record forms are those employed in a New York trust company which discounts acceptances in large numbers and totals. They constitute a complete and exhaustive record of operations in bankers' acceptances from the initial contact with the paper through all the different transactions covering acceptance by the bank, through rediscount by the Federal Reserve Bank.

These forms, or records, including those partly filled out, are practically self-explanatory to a banker familiar with the operation of acceptance procedure. Form number one following is varied by various banks but is the common form of acceptance contract with the bank and the customer.

ACCEPTANCE AGREEMENT

New York, Oct. 21, 19—.

For and in consideration of the acceptance by GUARANTY TRUST COMPANY OF NEW YORK, of my/our draft on it numbered *1—2—3* dated *October 21, 19—* payable *90 days sight* for *One hundred thousand* Dollars ($............), and all other drafts which may hereafter be accepted by the Guaranty Trust Company of New York at my/our request, I/we hereby deposit with and assign and transfer to said Trust Company as collateral security for the payment of said drafts at maturity, as well as for the payment of any and every debt or liability of every nature from the undersigned to said Trust Company, *Warehouse receipt No. 248, Ocean Warehouse Co. covering* 1000 *cases, leather marked XJS value $130,000* with such additional collaterals as may from time to time be required by any of the officers of said Trust Company, and which the undersigned hereby promises to furnish on demand. And the undersigned hereby gives to said Trust Company, or its assigns, full power to sell, assign and deliver the whole or any part of said collaterals, or any substitutes therefor, or any additions thereto, at any Broker's Exchange or elsewhere at public or private sale, at the option of such holder, on the non-performance of any of the promises herein contained, and without notice of amount due or claimed to be due, without demand of payment, without advertisement and without notice of the

time or place of sale, each and every of which is hereby expressly waived; and on any such sale the Trust Company, its assigns or any of the officers of said Trust Company, may purchase on its own account and without further accountability except for the purchase price thereof, the whole or any part of the property sold free from any right of redemption on the part of the undersigned, which right is hereby waived and released.

It is further agreed, that any surplus arising from the sale of said collaterals, beyond the amount due hereon, shall be applicable upon any claim of the said Trust Company arising directly or by assignment against the undersigned at the time of said sale, whether the same be then due or not due.

And it is further agreed that any moneys of properties, at any time, in the possession of GUARANTY TRUST COMPANY OF NEW YORK belonging to any of the parties liable hereon to said Trust Company, and any deposits, balance of deposits or other sum at any time credited by or due from said Trust Company to any of said parties, shall at all times be held and treated as collateral security for the payment of any other obligation, indebtedness or liability of the undersigned to the said Trust Company, whether due or not due, and said Trust Company may at any time, at its option, set off the amount due or to become due hereon or any other obligations against any claim of any of said parties against said Trust Company.

And I/we also agree to place said Trust Company in possession of sufficient funds in cash previous to the maturity of said draft, and of any other drafts which the said Trust Company may hereafter from time to time accept to meet the maturity of said draft or drafts respectively, together with commission as agreed and any interest which may accrue thereon, calculated at the rate of six per cent. (6%) per annum. Any and all drafts or bills of exchange now or hereafter delivered by me/us to said Trust Company to be collected shall be delivered to and received by it as security for said acceptance or acceptances without impairing in any way my/our obligation hereunder to place said Trust Company in funds before the maturity of said acceptance or acceptances as aforesaid, and all documents relating to such bills for collection shall likewise be held and received by said Trust Company as security with the privilege of delivering same to drawees upon acceptance or acceptances unless instruction to the contrary shall be attached to each bill.

The said Trust Company shall have the right to apply the proceeds of such collections against the payment of said acceptance or acceptances and of any other indebtedness due or to become due from me/us.

It is expressly agreed that I/we assume all responsibility for the collection of drafts or bills delivered as aforesaid and for any loss, costs or expense suffered or incurred by said Trust Company in connection therewith, and that said Trust Company shall be held free of responsibility for, and my/our obligation to place said Trust Company in funds as aforesaid shall not be affected or impaired by, any default, neglect, suspension, insolvency or bankruptcy of any correspondent or sub-agent to whom said bills or drafts may be entrusted

for collection or for any delay in remittance, loss in exchange, or the loss of the said drafts or bills or their proceeds during transmission or in the course of their collection, and I/we expressly agree to assume all responsibility for, and that my/our said obligation to said Trust Company shall not be affected or impaired by, the non-payment of any bills of exchange which may be received by said Trust Company or by any collecting bank, agent or sub-agent in payment of such drafts or bills of exchange.

I/we also assume all responsibility of, and said obligation to place said Trust Company in funds shall not be affected or impaired by, any risk or error in the course of transmission of telegrams and cablegrams or the loss of letters or other documents which may be sent in connection with the said drafts or bills for collection.

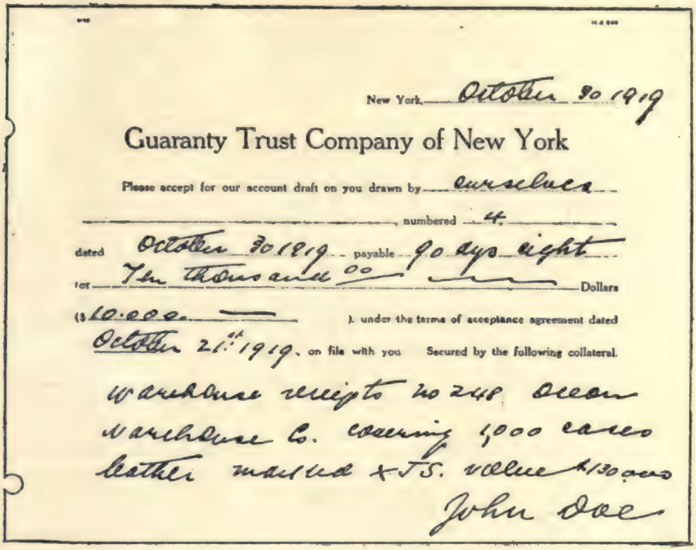
I/we also agree that in the event that any of the said Trust Company's correspondents, agents or sub-agents for collection of said drafts or bills shall advise it that any of said drafts or bills are not promptly accepted or paid, or in the event of the suspension, failure or assignment for the benefit of creditors, by or the filing of a petition in bankruptcy against the drawee or the drawees of any of said bills for collection, that I/we will immediately upon receipt of such notice, waiving protest, and notice of protest, pay or cause to be paid to said Trust Company in cash the face amount of such draft or bill for collection which has not been accepted or the drawee of which has suspended, failed or assigned or against whom a petition in bankruptcy has been filed as aforesaid.

In the event of my/our suspension, failure or assignment for the benefit of creditors, or of petition in bankruptcy being filed against me/us, or the non-fulfillment of any obligation hereunder on my/our part to be performed, all obligations and liabilities to said Trust Company on my/our part shall immediately, without notice, accrue and mature and become due and payable, and it is also agreed that in either of those events, said Trust Company may take such action with respect to the correction of any or all of said drafts and bills delivered as aforesaid for collection as it may deem advisable to protect its interests, and I/we hereby agree to indemnify and save said Trust Company harmless from any loss, costs, damage, expense (including reasonable attorney's fees) suffered or incurred by it by reason of such action or by reason of my/our failure to perform any of the obligations arising hereunder.

This obligation shall continue in force and remain applicable notwithstanding any change in the individuals comprising our firm, whether such change shall arise from the accession of one or more new partners or from the death, retirement or succession of any partner or partners.

All rights arising under this agreement shall be determined according to the laws of the State of New York.

John Doe.



New York, October 30 1919

Guaranty Trust Company of New York

Please accept for our account draft on you drawn by ourselves

numbered 4

dated October 30 1919 payable 90 days sight

for Ten thousand 00/ — Dollars

($10.000. —), under the terms of acceptance agreement dated

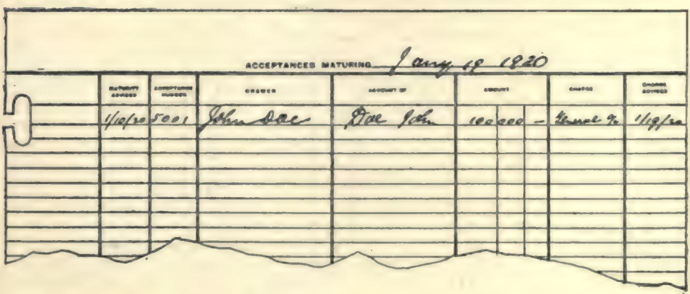
October 21st 1919, on file with you. Secured by the following collateral.

Warehouse receipts no 248 Ocean Warehouse Co. covering 1,000 cases leather marked X.T.S. value $130,000

John Doe

FIGURE 24. ACCEPTANCE APPLICATION

Figure 24, acceptance application, is one used by the bank after the acceptance agreement is drawn up, and this secondary form has its relation to the foregoing agree-



ACCEPTANCES MATURING Jany 19 1920

	Maturity Advised	Acceptance Number	Drawer	Account of	Amount	Charges	Charge Advised
	1/10/20	5001	John Doe	Doe John	100 000 —	Usual %	1/19/20

FIGURE 25. BANK'S RECORD OF ACCEPTANCES MATURING

11-1-19

Guaranty Trust Company of New York

INSTRUCTIONS FOR DISCOUNT

Acceptance No. 5001 New York, Oct 21 1919

Drawn by John Doe

Amount $ 100.000 Tenor 90 ds Rate 5 %

Disposition of proceeds Credit General %

Foreign Department	Made out by ✓	Checked by ✓	Division Head ✓	Authorized by ✓

FIGURE 26. BANK'S INSTRUCTIONS FOR DISCOUNT

MEMORANDUM OF DISCOUNT

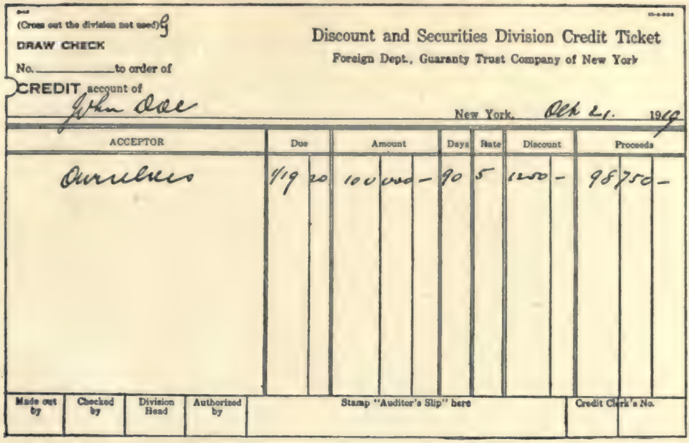
Guaranty Trust Company of New York

Foreign Dept., Discount and Securities Division

BOUGHT OF John Doe 100 Broadway New York, October 21 1919

ACCEPTOR	Due	Amount	Days	Rate	Discount	Proceeds
Ourselves	1/19 20	100000 00 –	90	5	1250 –	98750 –

FIGURE 27. BANK'S MEMORANDUM OF DISCOUNT


(Cross out the division not used)
DRAW CHECK
No. ______ to order of
CREDIT account of John Doe

Discount and Securities Division Credit Ticket
Foreign Dept., Guaranty Trust Company of New York

New York, Oct 21, 1919

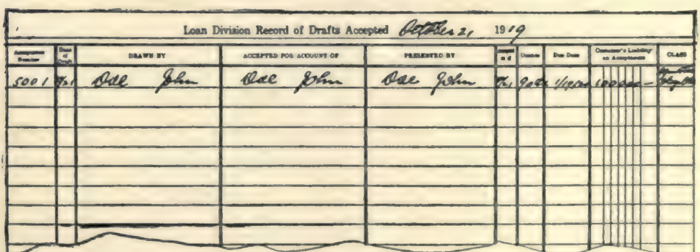
ACCEPTOR	Due	Amount	Days	Rate	Discount	Proceeds
Ourselves	1/19 20	100 000 —	90	5	1250 —	98 750 —

Made out by	Checked by	Division Head	Authorized by	Stamp "Auditor's Slip" here	Credit Clerk's No.

FIGURE 28. BANK'S CREDIT TICKET

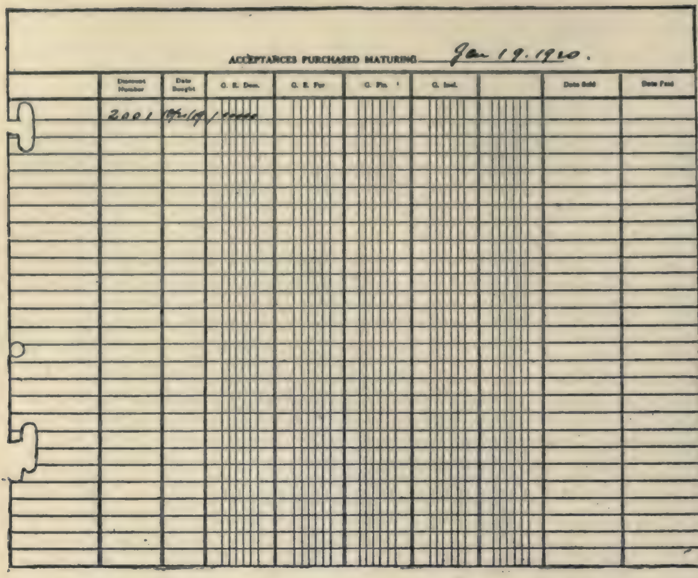
ment. It is not necessary to utilize the same specific security as set out in the acceptance agreement, as the form is broad enough to cover additional collateral, substitutions, etc.

Figure 25 is the record of the bank's acceptances maturing, and Figure 26 is the bank's instructions for discount. Figure 27 is the memorandum of discount sent


Loan Division Record of Drafts Accepted October 21, 1919

		DRAWN BY	ACCEPTED FOR ACCOUNT OF	PRESENTED BY			Due Date	Customer's Liability on Acceptances	CLASS
5001		Doe John	Doe John	Doe John		90	1/19/20	100000 —	

FIGURE 29. LOAN DIVISION ACCEPTANCE RECORD



ACCEPTANCES PURCHASED MATURING Jan 19. 1920.

	Discount Number	Date Bought	G. E. Dom.	G. E. For	G. Fin.	G. Ind.		Date Sold	Date Paid
	2001	[illegible]	[illegible]						

FIGURE 30. BANK'S RECORD OF ACCEPTANCES PURCHASED

to the customer. Figure 27 and 28 are the bank's record for handling the items. Figure 29 is the loan division's record of acceptances. Figure 30 is the bank's record of acceptances purchased, maturing on specific dates. Column three, "G.E. DOM.," signifies "Guaranteed Eligible Domestic"; column four, "G.E. FOR.," signifies "Guaranteed Eligible Foreign"; column five, "G. FIN.," signifies "Guaranteed Finance." Figure 31 is the record of endorser's and drawer's liability to the bank upon the acceptance. Figure 32 is the acceptor's liability record and would be used only where the bank discounted acceptances of others. Figure 33 would also be used only where acceptances were purchased from others and sold. Figures 34 and 35 are memorandum slips of discount where acceptances are sold to others or discounted.

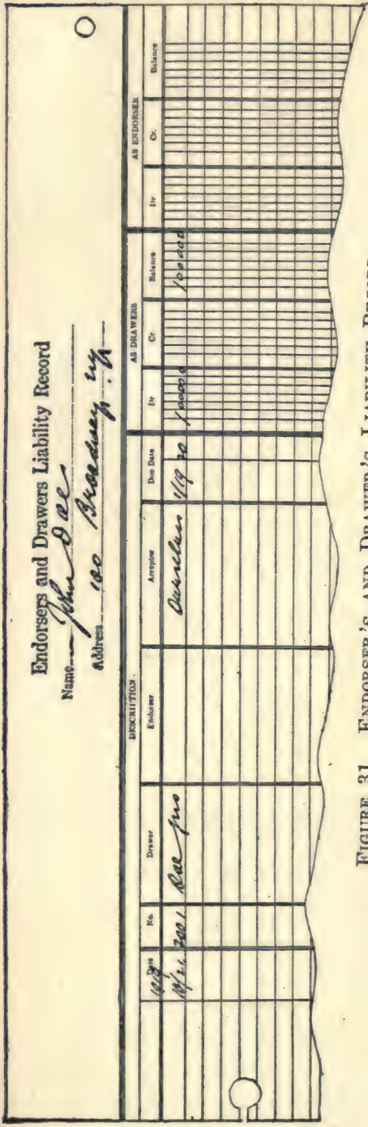


FIGURE 31. ENDORSER'S AND DRAWER'S LIABILITY RECORD

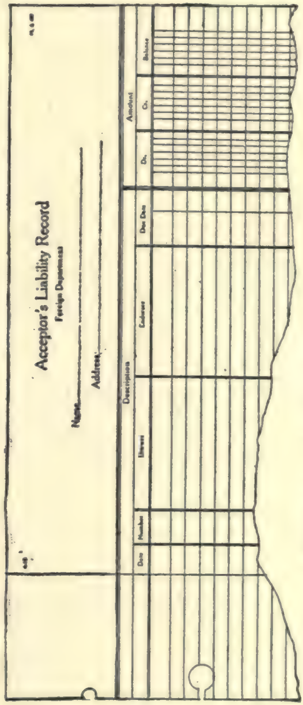


FIGURE 32. ACCEPTOR'S LIABILITY RECORD

ACCEPTANCES PURCHASED MATURING ______________

	Discount Number	Date Bought	ACCEPTOR				SOLD		Forwarded for Collect.	Date Paid
							Date	Endorsed		

MEMORANDUM OF DISCOUNT

Guaranty Trust Company of New York

Foreign Dept. Discount and Securities Division

SOLD TO

New York, ______________ 19__

Number	ACCEPTOR	Due	Amount	Days	Rate	Discount	Proceeds

Guaranty Trust Company of New York

Foreign Dept. Discount and Securities Division

SOLD TO

RECORD OF ACCEPTANCES SOLD

How Settled ______________

New York, ______________ 19__

Number	ACCEPTOR	Due	Amount	Days	Rate	Discount	Proceeds

FIGURES 33, 34 AND 35. BANK'S RECORDS OF ACCEPTANCES PURCHASED OR SOLD

Figures 36 and 37 are forms of record employed by the same banking house for collections records and discount or loan record. Forms 1 to 8 of Figure 38 are forms for special instructions, acknowledgment, collection, debit ticket, report, credit ticket, payment advice, office copy. They are all made out by carbon at one operation. Different banks use varying methods and detail.

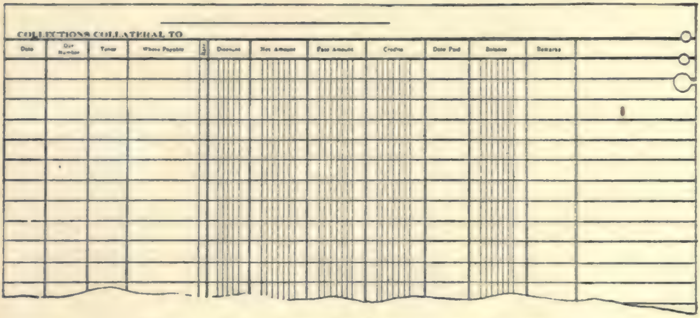


FIGURE 36. BANK'S COLLECTION RECORD

Simple Records Used by Discount Company of New York on Bankers' Acceptances.—A simple system of numbered records has been devised by a large discount corporation of New York, of which Figure 39 is an illustration. These records are made in multiple by carbon for the ledger in loose-leaf form; part of the records are used for permanent records and the balance are perforated, torn off, and distributed for the records of the various departments or for notification of the customer, etc. These various sheets are on different colored paper and are headed or designated for their particular distribution or use.

It will be understood that these are records of bankers' acceptances for transactions involving considerable amounts and that a record of each transaction is desirable or necessary. These sheets do not allow of addition or

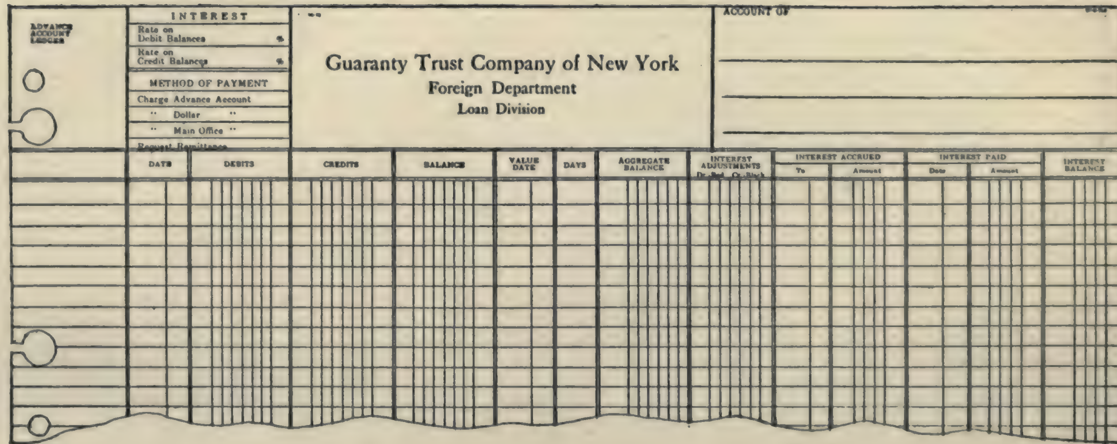

ADVANCE ACCOUNT LEDGER
INTEREST
Rate on Debit Balances %
Rate on Credit Balances %
METHOD OF PAYMENT
Charge Advance Account
" Dollar "
" Main Office "
Request Remittance
Guaranty Trust Company of New York
Foreign Department
Loan Division
ACCOUNT OF
DATE
DEBITS
CREDITS
BALANCE
VALUE DATE
DAYS
AGGREGATE BALANCE
INTEREST ADJUSTMENTS Dr.-Red Cr.-Black
INTEREST ACCRUED
To
Amount
INTEREST PAID
Date
Amount
INTEREST BALANCE

FIGURE 37. BANK'S INTEREST RECORD

TO

1

New York London Paris Liverpool Brussels

Guaranty Trust Company of New York
FOREIGN DEPARTMENT
140 BROADWAY NEW YORK

ORIGINAL

WE ENCLOSE FOR COLLECTION DRAFT:

RECEIVED FROM | PLEASE REFER TO COLLECTION NO. 36

DRAWN BY | ON

DATE | ORIG NO | TENOR | PAYABLE AT | AMOUNT

THE RELATIVE DOCUMENTS AS DESCRIBED BELOW ARE BEING FORWARDED TO YOU BY FIRST AND SECOND MAILS

BILLS OF LADING	INSURANCE CERTIFICATES	INVOICES	CONSULAR INVOICES
CERT'S OF INSPECTION	CERT'S OF ORIGIN	WEIGHT LISTS	

IN ADDITION TO YOUR CHARGES KINDLY COLLECT OUR COMMISSION

SPECIAL INSTRUCTIONS
KINDLY OBSERVE INSTRUCTIONS MARKED "X"

DELIVER DOCUMENTS ON ACCEPTANCE
" " PAYMENT
CABLE ACCEPTANCE
" PAYMENT
PROTEST OR NOTE
DO NOT PROTEST OR NOTE
IF REFUSED NOTIFY US BY CABLE
" " " MAIL
IN CASE OF NEED REFER TO
AFTER COLLECTION KINDLY

YOURS VERY TRULY
J. A. TERRACE
MANAGER

TO

2

New York London Paris Liverpool Brussels

Guaranty Trust Company of New York
FOREIGN DEPARTMENT
140 BROADWAY NEW YORK

ORIGINAL

WE ENCLOSE FOR COLLECTION DRAFT:

RECEIVED FROM | PLEASE REFER TO COLLECTION NO. 36

DRAWN BY | ON

DATE | ORIG NO | TENOR | PAYABLE AT | AMOUNT

THE RELATIVE DOCUMENTS AS DESCRIBED BELOW ARE BEING FORWARDED TO YOU BY FIRST AND SECOND MAILS

BILLS OF LADING	INSURANCE CERTIFICATES	INVOICES	CONSULAR INVOICES
CERT'S OF INSPECTION	CERT'S OF ORIGIN	WEIGHT LISTS	

IN ADDITION TO YOUR CHARGES KINDLY COLLECT OUR COMMISSION

SPECIAL INSTRUCTIONS
KINDLY OBSERVE INSTRUCTIONS MARKED "X"

DELIVER DOCUMENTS ON ACCEPTANCE
" " PAYMENT
CABLE ACCEPTANCE
" PAYMENT
PROTEST OR NOTE
DO NOT PROTEST OR NOTE
IF REFUSED NOTIFY US BY CABLE
" " " MAIL
IN CASE OF NEED REFER TO
AFTER COLLECTION KINDLY

YOURS VERY TRULY
J. A. TERRACE
MANAGER

3

VOID

New York London Paris Liverpool Brussels

Guaranty Trust Company of New York
FOREIGN DEPARTMENT
140 BROADWAY NEW YORK

ACKNOWLEDGMENT

TO | PLEASE REFER TO COLLECTION NO. 36

WE ACKNOWLEDGE RECEIPT OF THE FOLLOWING DRAFT FOR COLLECTION:

DRAWN BY | ON

DATE | ORIG NO | TENOR | PAYABLE AT | AMOUNT

TOGETHER WITH THE FOLLOWING DOCUMENTS

BILLS OF LADING	INSURANCE CERTIFICATES	INVOICES	CONSULAR INVOICES
CERT'S OF INSPECTION	CERT'S OF ORIGIN	WEIGHT LISTS	

[redacted]

WE SHALL ADVISE YOU PROMPTLY AS SOON AS WE RECEIVE A REPORT FROM OUR CORRESPONDENT REGARDING IT.

YOURS VERY TRULY
J. A. TERRACE
MANAGER

DEBIT ACCOUNT OF:

4

OUTGOING COLLECTION DIVISION

Guaranty Trust Company of New York
FOREIGN DEPARTMENT

DEBIT TICKET

DATE SENT

CUSTOMER | COLLECTION NO. 36

FOR COLLECTION OF DRAFT DESCRIBED HEREON

MADE OUT BY	CHECKED BY	APPROVED BY	AUTH. BY

DESCRIPTION OF DRAFT

DRAWN BY | ON

DATE | ORIG NO. | TENOR | PAYABLE AT | AMOUNT

DOCUMENTS ATTACHED

BILLS OF LADING	INSURANCE CERTIFICATES	INVOICES	CONSULAR INVOICES
CERT'S OF INSPECTION	CERT'S OF ORIGIN	WEIGHT LISTS	

EXCHANGE RATE	$
PLUS OUR COMMISSION (DO NOT ADD IF DEDUCTED FROM CREDIT TO CUSTOMER)	
PLUS INTEREST (IF ANY)	
LESS CORRESPONDENT'S CHARGES	
NET DEBIT	
DATE DEBITED	VALUE DATE

FIGURE 38. DUPLICATE RECORD FORMS FOR VARIOUS DEPARTMENTS

New York London Paris Liverpool Brussels

Guaranty Trust Company of New York

FOREIGN DEPARTMENT

140 BROADWAY NEW YORK

5

VOID

To

PLEASE REFER TO COLLECTION NO. 36

WE HAVE RECEIVED THE FOLLOWING REPORT FROM OUR CORRESPONDENT REGARDING YOUR DRAFT

DRAWN BY				ON
DATE	ORIG NO	TENOR	PAYABLE AT	AMOUNT

DOCUMENTS FORWARDED WITH DRAFT

BILLS OF LADING	INSURANCE CERTIFICATES	INVOICES	CONSULAR INVOICES
CERT'S OF INSPECTION	CERT'S OF ORIGIN	WEIGHT LISTS	

REPORT: [redacted]

YOURS VERY TRULY

J. A. TERRACE

MANAGER

FOREIGN CORRESPONDENT

MADE OUT BY	CHECKED BY	APPROV'D BY	AUTH. BY

OUTGOING COLLECTION DIVISION

Guaranty Trust Company of New York

FOREIGN DEPARTMENT

6 CREDIT TICKET

DATE SENT

CREDIT ACCOUNT OF

COLLECTION NO. 36

FOR PROCEEDS OF THE FOLLOWING DRAFT

DRAWN BY				ON
DATE	ORIG NO	TENOR	PAYABLE AT	AMOUNT

DOCUMENTS ATTACHED

BILLS OF LADING	INSURANCE CERTIFICATES	INVOICES	CONSULAR INVOICES
CERT'S OF INSPECTION	CERT'S OF ORIGIN	WEIGHT LISTS	

EXCHANGE RATE $

CREDIT COMMISSION A C (DEDUCT IF NOT CHARGED TO CORRESPONDENT)

LESS CORRESPONDENT'S CHARGES

PLUS INTEREST (IF ANY)

NET CREDIT

DATE CREDITED

VALUE DATE

New York London Paris Liverpool Brussels

Guaranty Trust Company of New York

FOREIGN DEPARTMENT

140 BROADWAY NEW YORK

7 PAYMENT ADVICE

VOID

To

PLEASE REFER TO COLLECTION NO. 36

WE HAVE CREDITED YOUR ACCOUNT / ENCLOSE OUR CHECK FOR PROCEEDS FROM COLLECTION OF YOUR DRAFT.

DRAWN BY				ON
DATE	ORIG NO	TENOR	PAYABLE AT	AMOUNT

DOCUMENTS DELIVERED

BILLS OF LADING	INSURANCE CERTIFICATES	INVOICES	CONSULAR INVOICES
CERT'S OF INSPECTION	CERT'S OF ORIGIN	WEIGHT LISTS	

EXCHANGE RATE $

OUR COMMISSION DEDUCTED FROM CREDIT / CHARGED TO DRAWEE

LESS CORRESPONDENT'S CHARGES

PLUS INTEREST (IF ANY)

NET PROCEEDS

YOURS VERY TRULY

A. TERRACE

MANAGER

FOREIGN CORRESPONDENT

SPECIAL INSTRUCTIONS

DELIVER DOCUMENTS ON ACCEPTANCE

PAYMENT

CABLE ACCEPTANCE

PAYMENT

PROTEST OR NOTE

DO NOT PROTEST OR NOTE

IF REFUSED NOTIFY US BY CABLE

MAIL

IN CASE OF NEED REFER TO

AFTER COLLECTION REMIT

Guaranty Trust Company of New York

OUTGOING COLLECTION DIVISION—FOREIGN DEPARTMENT

8 OFFICE COPY

DATE SENT

CUSTOMER

COLLECTION NO. 36

DRAWN BY				ON
DATE	ORIG NO	TENOR	PAYABLE AT	AMOUNT

DOCUMENTS DELIVERED

BILLS OF LADING	INSURANCE CERTIFICATES	INVOICES	CONSULAR & INVOICES
CERT'S OF INSPECTION	CERT'S OF ORIGIN	WEIGHT LISTS	

EXCHANGE RATE

OUR COMMISSION DEDUCTED FROM CREDIT / CHARGED TO DRAWEE

LESS CORRESPONDENT'S CHARGES

PLUS INTEREST (IF ANY)

NET PROCEEDS

YOURS VERY TRULY

J. A. TERRACE

MANAGER

FIGURE 38 (*Continued*). DUPLICATE RECORD FORMS FOR VARIOUS DEPARTMENTS

the checking of totals, but are sufficiently specific in their variety of distribution to check up all necessary entries and may be rechecked and segregated by the number stamped thereon. This standardization of record and its simplification makes possible economy of detail and time of handling.

These records, as reproduced, are made up, seven to a sheet and in multiples of five, of different colors for different uses, all being duplicated by carbon, when the original is made on typewriter.

The first, or white, sheet is the permanent office record and is not perforated, but is for insertion in the loose-leaf

	BOUGHT FROM CENTRAL	UNION	ACC. DATE TR. CO.	FINAL SALE TO RATE	DATE PCS. 10-20-19			
	TERMS 60d-s	ACC. NO. 10-17-	19	ACCEPTOR CENTRAL UNION TR. CO.	DUE 12-16-19			
				ENDORSEMENTS . METALS TRADING CORP.	OUR NO. 4288 57	17,	894.	15
	CITY DRAWN NYC				PAYABLE N & M N/B	17,	959.	50
		DR'S NO. 143	DR'S DATE 10-13-	DRAWER 19 do	RATE BOUGHT 4 1/4	18,	019.	56
	ELIGIBLE	STAMPS X	REV STAMPS X	PART SALE TO RATE	DATE PCS.	12,	155.	26
				IN LOANS ETC.				

FIGURE 39. SIMPLE FORM OF DUPLICATE RECORD USED BY A DISCOUNT HOUSE

book. Sheet number two, in blue, is perforated for tearing out and distribution, and from this is made the maturity record of the acceptance. These slips may also be used in particular forms to come up at maturity date or two or more days before for record of maturity and collection.

Sheet number three, in yellow, is the drawer's record and is used as a notification to the drawer of the acceptance. Sheet number four, green, is the auditor's record for distribution and to check up on book entries. Record number five, yellow, is a heavy sheet, and is used for the filing of the account. It is not perforated. The checking of totals on these sheets or records may be done by a typewriter totalizer for grand totals, or by checking and

adding machines. They are desirable forms for a discount bank or house.

No doubt many modifications and additions to the foregoing specimen plan of records will suggest themselves to bankers, credit men, and students seeking the most simple, efficient, and economical forms and system of records in handling acceptances through the bank.

CHAPTER XVII

INVESTIGATION BY QUESTIONNAIRE OF TRADE ACCEPTANCES

Of great value are the specific answers received to hundreds of questionnaires upon acceptance procedure sent by a business research bureau to business houses all over the country. The following pages contain a digest of the replies received. The answers are expressed in percentage where possible, and also include some pertinent comments added by the firms answering. If it were possible to reproduce all the lucid and painstaking replies received, the exceptional value of this consensus would become even more apparent to the reader.

To illustrate this intelligent and remarkably generous contribution to the general knowledge of the business world upon this subject, specimen answers, typical of varying conditions in trade and locality, from five firms who have used trade acceptances for from one to three years, are reproduced in full. The answers to the questionnaire quoted below were made by: (1) a New York jobber and importer of specialties; (2) a Philadelphia manufacturer and jobber of paints and varnishes; (3) an Iowa manufacturer of farm implements and machines; (4) a Washington (State) small-food jobber, and (5) a San Francisco jobber of electric-railway supplies. The questions ("*Q*") and answers ("*A*") of merchants Nos. 1, 2, 3, 4 and 5 follow:

1. (*Q*) Have you used trade acceptance? How long?
   (*A*) (1) Since October, 1916. (2) 2 years. (3) 1 year. (4) 3 years. (5) 1 year.

2. (*Q*) How extensively?
(*A*) (1) On accounts where we had to give ratings. (2) Entirely. (3) On all invoices of $50 or over for 60 days. (4) In purchases mostly. (5) On one classification of trade, about 40 per cent.

3. (*Q*) Do you think them advantageous?
(*A*) (1) Yes, very. (2) Yes. (3) Yes. (4) Sure. (5) Yes.

4. (*Q*) Do your customers welcome them?
(*A*) (1) Some do. (2) Yes. (3) No. (4) No. (5) 50-50.

5. (*Q*) Do your customers resent them?
(*A*) (1) Some do. (2) No reply. (3) Yes, some. (4) Some. (5) 5 per cent.

6. (*Q*) Do your customers ignore them?
(*A*) (1) Some do. (2) No reply. (3) Yes, some. (4) Some. (5) 45 per cent.

7. (*Q*) What objections, if any, do your customers make to them?
(*A*) (1) Various. (2) None. (3) Do not know into whose hands they will fall. (4) Do not understand—too much trouble. (5) We have competition which discredits and calls them "drafts," etc.

8. (*Q*) What answers do you give to objections?
(*A*) (1) That depends. (2) No reply. (3) Makes no difference to them as long as proper use is made. (4) Those needed. (5) Various, but principally we state, "This is neither dun nor draft."

9. (*Q*) What objections, if any, do your salesmen make to them?
(*A*) (1) None. (2) None. (3) Salesmen harder to educate than the customers. (4) None. (5) We have explained matters so they can't object.

10. (*Q*) What answers do you give to objections?
(*A*) (1) No reply. (2) No reply. (3) No reply. (4) No reply. (5) No reply.

11. (*Q*) What objections, if any, does your bank make to them?
(*A*) (1) None. (2) None. (3) None, they encourage. (4) Banks are awake—most of them. (5) Our bankers are asleep and mildly object; they don't want any of them.

12. (*Q*) What answers do you give to objections?
(*A*) (1) No reply. (2) No reply. (3) No reply. (4) No reply. (5) Don't try any more.

13. (*Q*) What objections, if any, do you make to them?
(*A*) (1) None. (2) None. (3) None. (4) None; the best way to do business. (5) None whatever.

14. (*Q*) Do you find that they interfere with your one-name paper or line of credit?
(*A*) (1) No. (2) No. (3) They assist. (4) No—help get more. (5) No.

15. (*Q*) Do they increase your total line of credit?
(*A*) (1) Yes. (2) Yes. (3) Couldn't say. (4) Sure. (5) No.

16. (*Q*) What proportion do you discount?
(*A*) (1) All. (2) 50 per cent. (3) 100 per cent, practically. (4) 60 per cent, about. (5) 50 per cent.

17. (*Q*) Average rate?
(*A*) (1) 5 per cent. (2) 4 per cent. (3) 4½ per cent to 6 per cent. (4) 6 per cent. (5) 6 per cent, as my bank doesn't recognize any difference between a note and acceptance.

18. (*Q*) What proportion has been returned unpaid?
(*A*) (1) 0.1 per cent. (2) Comparatively none. (3) Not 10 per cent. (4) Hardly ever. (5) 1 per cent—anticipated about 5 per cent.

19. (*Q*) What are average collection costs?
(*A*) (1) No reply. (2) No reply. (3) ½ per cent to 1 per cent. (4) No reply. (5) 15 cents.

20. (*Q*) What form of acceptance do you use, and why? [Two samples are requested.]
(*A*) (1) Samples enclosed. (2) Attached. (3) See attached. (4) No reply. (5) Samples speak for themselves.

21. (*Q*) What form of register do you use? [Two samples requested.]
(*A*) (1) Ledger account. (2) No reply. (3) Same as note. (4) Regular check register. (5) Usual note register.

22. (*Q*) Do you "tickle" or follow-up acceptances not returned?
(*A*) (1) Yes. (2) No. (3) Yes. (4) No reply. (5) No.

23. (*Q*) Methods [sample forms requested.]
(*A*) By keeping letter in tickler. (2) No reply. (3) Make

second and third requests. (4) No reply. (5) We proceed, as soon as due, to collect.

24. (*Q*) What form of record do you keep when you put acceptances in bank for collection or discount? [Sample forms requested.]
(*A*) (1) Ledger account. (2) Same as ordinary note. (3) Consider it paid until returned to us. (4) No reply. (5) No different than notes.

25. (*Q*) What letters of instruction to salesmen or departments do you use? [Sample forms requested.]
(*A*) (1) None. (2) Verbal instructions. (3) See attached. (4) No reply. (5) Have talked matter over in meetings.

26. (*Q*) What inducements, if any, over regular terms, do you give to buyer for signing acceptances?
(*A*) (1) Extra time. (2) 30 days. (3) None; are considering it. (4) Extra time, discount, and more credit. (5) 30 days extra time and 1 per cent discount: 1 per cent only because we have no coöperation whatever in our line.

27. (*Q*) Do you handle as "acceptances receivable"?
(*A*) Yes. (2) Yes. (3) No reply. (4) Yes. (5) Yes.

28. (Q) (1) Do you handle as "bills receivable"?
(*A*) (1) Yes. (2) No. (3) Yes. (4) No. (5) No.

29. (*Q*) Do you find trade acceptances save you in following ways or not?
Are your accounts paid more promptly?
(*A*) (1) Yes. (2) Yes. (3) Yes. (4) Yes. (5) Yes.

30. (*Q*) Does it minimize taking cash discounts after discount date?
(*A*) (1) Yes. (2) No. (3) Yes. (4) Yes. (5) Yes.

31. (*Q*) Does it save time in bookkeeping? Accounting? Dunning? Collection by lawyers?
(*A*)

	Bookkeeping	Accounting	Dunning	Collection by Lawyers
(1)	Yes	Yes	Yes	Yes
(2)	No	No	Yes	No
(3)	No	No	Yes	Possibly
(4)	Yes	Yes	Yes	Yes
(5)	Yes	Yes	Yes	Naturally

32. (*Q*) Do you find a benefit from having accounts in more liquid form?

(*A*) (1) Yes, we can use the money without inconvenience to the acceptor. (2) Yes, turn them into cash. (3) Yes, turning our capital oftener. (4) Can easily discount. (5) Yes, because liquid instead of absolutely dead and useless.

33. (*Q*) Do you get a preferential discount rate on acceptances over one name paper?

(*A*) (1) No. (2) Yes. (3) No. (4) Not yet. (5) No.

34. (*Q*) Do your banks prefer trade acceptances to your notes?

(*A*) (1) No. (2) No reply. (3) Yes. (4) Some. (5) No.

35. (*Q*) Do you sell trade acceptances elsewhere than your bank?

(*A*) (1) No. (2) No. (3) No. (4) No. (5) No.

36. (*Q*) Please state fully your idea of benefits to buyer accepting?

(*A*) (1) No reply. (2) Gives 30 days' additional time. (3) Impresses him that he has the obligation payable at his bank he desires to keep credit good. (4) More time and better for seller which helps buyer in end. (5) It will eliminate eventually his irresponsible cut-throat competition.

37. (*Q*) Do you pay your bills with trade acceptance?

(*A*) (1) We discount our domestic bills, but pay our foreign accounts by 90 days' draft against L. C. These drafts are accepted by our bank upon presentation. (2) No. (3) Yes. (4) Yes. (5) No.

38. (*Q*) Do you get better rates?

(*A*) (1) No reply. (2) No reply. (3) No. (4) No. (5) No reply.

39. (*Q*) Does your trade association favor acceptances?

(*A*) (1) Yes. (2) Yes. (3) Yes. (4) Don't know. (5) Increased to about 50 per cent now.

40. (*Q*) What have they done to encourage them?

(*A*) (1) No reply. (2) No reply. (3) Series of letters. (4) Don't know. (5) Knocked and ridiculed.

41. (*Q*) What other firms do you know of who now use, or propose to use, trade acceptances?

(*A*) (1) No reply. (2) Paint and varnish manufacturers,

Pennsylvania. (3) Manufacturing company, Iowa. (4) All flour mills and grain dealers in Seattle. (5) Electric railway company.

It should be fully kept in mind that those using trade acceptances and those not yet doing so, as evidenced by the answers to the questionnaire, were judging trade acceptances largely by "rule of thumb," while those who had the advantage of starting on a complete, tested plan, and who did not need to make any errors of omission or commission, showed a higher percentage of returns.

Tabulation of Questions and Answers Received.—The following tabulation of results of the investigation is self-explanatory. The value of these data will be best appreciated by the reader through careful analysis and judgment based upon the figures and quotations given.

Have you used trade acceptances? Yes, 35 per cent; No, 65 per cent.

How long? Average less than a year.

How extensively? Average about "fair."

Do you think them advantageous? Yes, 94 per cent; No, 6 per cent.

Do your customers welcome them? Yes, 50 per cent.

Do your customers resent them? Yes, 10 per cent.

Do your customers ignore them? Yes, 40 per cent.

What objections, if any, do your customers make to them?

"Have never heard of them."

"Don't sign drafts. Resent advice in their financial arrangements."

"Do not quite understand as yet."

"Expect to pay when due; don't care to sign acceptance."

"Return acceptances, refer to them as 'notes.'"

"Additional time no object."

"Payment before receiving goods, etc."

"Some consider acceptances same as 'notes.'"

"Some have expressed the opinion that signing would release seller of responsibility for errors."

"Competitors call them draft, etc."

"Ties them down to definite day of payment."

"Prefer old terms."

"Large percentage of class of trade we sell (grocers) are foreigners; would not understand what acceptances are."

What answers do you give to objections?

"Offer them interest at 7 per cent per annum for 2 months."

"That it is to their advantage to accept them."

"To pay cash, or complete acceptance."

"Try to explain explicitly advantages."

"Tell them payment on terms is satisfactory, and each month give them another letter and trade acceptance filled out."

"Along lines as advanced by National Association of Credit Men."

"Thoroughly responsible and always willing to adjust existing differences promptly, whether account is settled or not."

"Say it is neither a 'dun' nor 'note.'"

"Get more credit and accommodations."

"Explain use in other countries."

What objections, if any, do your salesmen make to them? None, 100 per cent.

What explanations do you make to salesmen?

"Customers should pay up or sign up."

"Explain advantages to all concerned."

"It is necessary, in order to bring about a reform of this sort, to bring all departments into coöperation in the matter. It certainly is necessary to have the salesmen understand them, as a salesman should always understand the terms on which he is selling goods. Terms are a part of the price."

"Explain matter so they cannot object."

What objections, if any, does your bank make to them?

"Practically none."

"Bankers mildly asleep—don't want them."

"They endorse them."

"Few passed through their hands."

"Don't like lower rate of discount."

"Bank gladly handles them."

What objections, if any, do you make to them? Practically none, 99 per cent. From a book company in Ohio came the following letter:

"We made a determined effort to introduce the use of the trade acceptance among our customers, taking special pains to explain that it had been especially recommended by the Federal Reserve Banks. We were compelled, however, to abandon our efforts and discontinue the use of the trade acceptance for the following reasons:

"A great number of the banks persisted in handling the acceptance either entirely as a personal check, or entirely as a draft, holding for presentation and returning for "no attention" or returning at once for "not sufficient funds," without notice to drawer or acceptor, in which practice there was considerable confusion and annoyance to our customers who had availed themselves of its use.

"We feel that we did not have the full coöperation of the banks in the introduction of the general use of the trade acceptance.

"We can readily see that the trade acceptance, if generally used, is of unquestionable value to both the buyer and seller.

"We, however, knew that to establish its general use, the initiation must come through the banks, and especially should the banks of smaller communities be asked to instruct their customers in the benefits resulting from the use of trade acceptances."

Do you find that they interfere with your one-name paper or line of credit? No, 100 per cent.

Do they increase your total line of credit? Yes, 99 per cent. No, 1 per cent.

What proportion do you discount? All, 50 per cent; none, 20 per cent; half, 10 per cent; varies, 20 per cent. Average rate: over 6 per cent, 10 per cent; 6 per cent, 50 per cent; $5\frac{1}{2}$ per cent, 10 per cent; 5 per cent, 30 per cent.

What proportion has been returned unpaid?
Sixty per cent, none; 15 per cent, 1 per cent; 10 per cent, 2 per cent; 10 per cent, 2 to 5 per cent; 5 per cent, 5 to 10 per cent.

What are average collection costs?

Average of 25 cents, 10 per cent; 15 cents, 20 per cent; slight, 30 per cent; none, 40 per cent.

What form of register do you use?

Regular book, 20 per cent; ledger account, 5 per cent; regular bills receivable, 40 per cent; regular ledger and journal entry, 5 per cent; no special form, 10 per cent; similar to notes receivable register, 10 per cent; we have none, 10 per cent.

Do you "tickle" or follow up acceptances not returned?

Yes, 50 per cent; no, 50 per cent.

Methods used for follow up?

"No form."

"By keeping letter in tickler."

"By personal letter."

"None except referring when asking remittance after 30 days."

"Acceptance is optional. If not accepted we go after the collection on 30 days' basis."

"We follow up acceptances that are not returned until we get them back."

"We proceed as soon as due to collect."

What form of records do you keep when you put acceptances in bank for collection or discount?

"Notation on ledger account."

"Regular book."

"General book record."

"Use book record marked trade acceptance. We discount everything and thus reduce our 'bills payable' accounts and also keep trade acceptance account nearly in balance."

"Carry same on ledger (special)."

"Entry in cash book and acceptance register."

"Same as notes."

"Bank collection book."

"Deposit in regular account."

What letters of instruction to salesmen, or departments, do you use? None, 75 per cent; various letters and talks, 25 per cent. Those who state they do not send any letter handle the subject as follows:

"They are handled by credit department and mailed with invoices (see letter attached)."

"All such matters handled through credit and collection department."

"Talked over in sales meetings."

"Verbal instructions and bulletins and forms sent to customers."

What inducement, if any, over regular terms do you give buyer for signing acceptances?

Thirty days extra time and 2 per cent, 1 per cent; 30 days extra time and 1 per cent, 20 per cent; no days extra time and ½ of 1 per cent, 18 per cent; 60 days extra time and ½ of 1 per cent, 5 per cent; 30 days extra time and no per cent, 30 per cent; 60 days extra time and no per cent, 15 per cent; over 60 days extra time and no per cent, 1 per cent; no extra time and no per cent, 10 per cent.

Do you handle as "Acceptances Receivable"? Yes, 90 per cent.

Do you handle as "Bills Receivable"? Yes, 10 per cent.

Do you find trade acceptances save you in following ways or not?

(*a*) *Are your accounts paid more promptly?* Yes, 100 per cent.

(*b*) *Does it minimize taking cash discounts after discount date?* Yes, 70 per cent; no, 30 per cent.

(*c*) *Does it save time in bookkeeping?* Yes, 60 per cent; no, 40 per cent.

Accounting? Yes, 60 per cent; no, 40 per cent.

Dunning. Yes, 95 per cent; no, 5 per cent.

Collection by lawyers? Yes, 95 per cent; no, 5 per cent.

Do you find a benefit from having accounts in more liquid form? Yes, 95 per cent; no, 5 per cent.

"Can discount accounts payable readily."

"It is a financial aid. Assists in keeping our bank account right on discount days."

"Gives us more available funds to work with."

"Larger line of credit."

"We can use the money without inconvenience to the endorser."

"Can realize on them when needed."

"Gives us use of money before bills are due."

"Because liquid, instead of absolutely dead and useless."
"Reduce borrowing on our own note."
"More capital available."
"We deposit every acceptance at once with our bank."

Do you get any preferential discount rates on acceptances over one-name paper? No, 95 per cent; yes, 5 per cent.

How much on average? One-half of 1 per cent.

Do you sell trade acceptances elsewhere than your bank? No, 100 per cent.

Please state your idea of benefits to buyer accepting.

"Increases credit standing by establishing a reputation for prompt payment of obligations."
"Increases the desirability of his account from a credit standpoint."
"Teaches him to be prompt—to plan for payment—to save for it."
"Makes him a preferred credit risk in our business."
"Will eventually eliminate competition from dishonest buyers."
"Longer time."
"Larger credit limit."
"Thirty days extra time."

Do you pay your bills with trade acceptances?

"Rarely."
"Partly."
"We discount our domestic bills but pay our foreign accounts by 90 days' drafts against L/C. These drafts are accepted by our bank upon presentation."
"Yes, if requested."
"Some of them."
"When we get a chance."

Do you get better rates? Seldom.

Does your Trade Association favor acceptances?
Yes, 65 per cent; not on record, 35 per cent.

What have they done to encourage them?

"Nothing."
"Committee—speakers."
"Just discussed their use at our last convention."
"Trying to educate our trade."

"Adopted their use."

"Had addresses at semi-annual convention on this subject, but nothing definite decided on."

"Urge retailers to use them."

Summary of Opinion.—The answers indicate that trade acceptances are being used successfully in all lines of merchandising trade. The replies show earnest attention to the plan by those using them, but do not show standardized methods or results.

PART II

RULINGS AND OPINIONS OF COUNSEL OF THE FEDERAL RESERVE BOARD ON ACCEPTANCE PROCEDURE AND FORMS

CHAPTER XVIII

RULINGS OF THE FEDERAL RESERVE BOARD[1]

1. Refusal to Pay a Draft.

Refusal of a Federal Reserve Bank to pay a draft of a member bank which is violating its reserve requirements. "Under these circumstances the Federal Reserve Bank would have no right to refuse payment of the draft of a member bank on the ground stated." *Bulletin,* May, 1915, p. 12.

2. Limitation of Loan on Live Stock.

The limitation of 25 per cent on loans for agricultural purposes or based on live stock applies only to paper having maturity in excess of 90 days. *Bulletin,* June, 1915, p. 72.

3. Live Stock Includes Beef Cattle, Horses, and Mules.

The term "live stock" is held to include not only beef cattle, but horses and mules. *Bulletin,* June, 1915, p. 72.

4. Notes for Fertilizer Eligible.

A farmer's six months' note for commercial fertilizer, discounted and indorsed by a member bank, is agricultural paper eligible for rediscount with the Federal Reserve Bank. *Bulletin,* June, 1915, p. 75.

5. Cattle Mortgages Unnecessary.

Mortgages on cattle are not required, and the question whether paper secured by cattle is self-liquidating is a local one to be determined at the Federal Reserve Bank. *Bulletin,* June, 1915, p. 74.

The Act does not require the taking of chattel mortgages as security for loans based on agricultural operations. The statement of the member bank to this effect must ordinarily be accepted. The direct, primary purpose of the loan should be for

[1] Complete as published in the *Federal Reserve Bulletin,* 1915-1920.

the ordinary operations of agriculture. Words "based on" are not considered synonymous with "secured by." Agricultural paper need not be directly secured by agricultural products, but should be genuinely based upon transactions entered upon for agricultural operations. General banking prudence and knowledge should be applied. *Bulletin,* June, 1915, p. 72.

6. Paper of Finance Companies Ineligible.

The Board holds that collateral trust notes of so-called finance companies should not be accepted by Federal Reserve Banks for rediscount. Such a transaction is not a commercial one. *Bulletin,* June, 1915, p. 72.

7. Authority to Accept.

Authority from the Federal Reserve Board not necessary for a member bank to undertake acceptance business, unless the bank wishes to exceed 50 per cent of its capital and surplus. (Law amended.) *Bulletin,* July, 1915, p. 126.

8. Discount of Renewals.

Acceptance business of Federal Reserve Banks not restricted "to the original transactions only," if transaction has not been liquidated. When first acceptance matures member bank may renew the acceptance, and there is no reason why a Federal Reserve Bank may not discount such renewed acceptance although a Federal Reserve Bank must not engage in advance to make such discount of a renewal. *Bulletin,* July, 1915, p. 126.

9. Notes of Mule and Cattle Dealers Mercantile Paper.

Notes made by mule and cattle dealers are mercantile rather than agricultural paper. *Bulletin,* August, 1915, p. 212.

10. Crossties and Lumber Good Security.

Bills drawn for the purpose of providing funds to export crossties and lumber to Cuba are eligible for rediscount if properly indorsed and otherwise conforming to the regulations of the Federal Reserve Board. Such paper, it is presumed, would take the 90-day rate. *Bulletin,* September, 1915, p. 268.

11. Additional Collateral Security.

The fact that commercial paper has the additional security of collateral in no way affects its eligibility for rediscount. *Bulletin,* September, 1915, p. 268.

12. Six Months' Agreement.

A national bank is held to be authorized to enter into an agreement having more than six months to run by the terms of which it obligates itself for a period of time specified in the agreement to accept drafts drawn upon it, provided such drafts grow out of transactions involving the importation or exportation of goods, and that the individual drafts have not more than six months sight to run. This distinction is emphasized: "While a letter of credit or credit agreement may lawfully be made by a national bank which will extend by its terms for a period exceeding six months, the agreement must not be of such a character as will impose upon the holders of drafts accepted thereunder any obligation to renew such drafts so that the period of acceptance shall exceed six months in duration as to any specified draft." *Bulletin,* September, 1915, p. 269. See also *Bulletin,* November, 1916, p. 584.

13. Commodity Paper Includes Paper of Merchants and Others.

"Commodity paper" includes not only paper originating with the producer, but also paper of merchants and others when the commodity is not carried for speculative or purely investment purposes. *Bulletin,* October, 1915, p. 307.

14. Federal Reserve Banks Determine Eligibility.

Federal Reserve Banks must determine the eligibility of an acceptance. *Bulletin,* November, 1915, p. 362.

15. Evidence from State Member Banks.

Federal Reserve Bank reserves the right to ask State member banks for evidence underlying the certification given it as to an acceptance. *Bulletin,* December, 1915, p. 406.

16. Foreign Trade Acceptance.

Tentatively held that a 90-day sight draft drawn by a firm in Calcutta on a company in Boston and accepted by that firm, covering a transaction involving the transportation of merchandise from Calcutta to Honolulu, is a trade acceptance rather than a banker's acceptance. Ruling based upon facts submitted and subject to local conditions. *Bulletin,* December, 1915, p. 404.

17. Identification of Specific Goods.

Held not to be necessary that the specific goods covered by an acceptance based upon an import or export transaction must be

identified at the time of the acceptance. *Bulletin,* December, 1915, p. 405.

18. Goods Involved.

In interpreting the word "involved" in connection with the importation or exportation of goods, upon which an acceptance has been based, it is held that goods may be purchased and shipped subsequent to the time of the first acceptance, provided that there is a definite bona fide contract for the shipment of the goods within a specified and reasonable time. *Bulletin,* December, 1915, p. 405.

19. New Drafts Financing Original Transaction.

Upon payment of an acceptance the accepting bank may for a reasonable period accept new drafts for the financing of the original transaction, even after the shipment and delivery of the goods, provided such renewals be stipulated in the original contract as an incidental condition of the transaction of importation or exportation upon which the acceptance is based. *Bulletin,* December, 1915, p. 405. (Modified by ruling in *Bulletin,* September, 1919, p. 858, No. 189 of this book.)

20. Good Faith a Test.

Good faith must be relied upon to a large extent in determining whether an acceptance is based upon a transaction involving the importation or exportation of goods. *Bulletin,* December, 1915, p. 406.

21. Banks May Ask Assurances.

Member banks may best protect themselves in determining whether acceptances are based upon the exportation or importation of goods by stipulating the right at times to ask for substantiation of assurances from a customer. *Bulletin,* December, 1915, p. 406.

22. Responsibility with Federal Reserve Banks.

Ultimate responsiblity in purchasing acceptances held to rest with Federal Reserve Banks. *Bulletin,* January, 1916, p. 13.

23. Contract Not Fulfilled.

A member bank would be justified, if fully secured, in accepting drafts drawn by a local cotton-buying firm having a contract to sell to foreign buyers if the transaction, after having been made in good faith, ultimately resulted in the sale of the cotton to an American instead of a foreign purchaser. It was assumed in

connection with this interpretation of section 13 that the bank had received permission from the Board to accept drafts or bills of exchange drawn upon it; that the cotton buyers had a contract to sell cotton to a firm of Liverpool; that they held the cotton subject to shipping receipt of the Liverpool firm and that because of freight rates and shipping conditions the Liverpool firm changed its policy and directed the sale of the cotton. *Bulletin*, January, 1916, p. 13.

24. Statement Form.

Announcement that Federal Reserve Board will require statements satisfactory to it in connection with acceptances held to mean that the statement shall be satisfactory in form. *Bulletin*, January, 1916, p. 13.

25. Notes for Farm Tools Eligible.

Notes of farmers or consumers given for the purchase price of farm tools, agricultural machinery, or other farm-operating equipment are discountable under section 13 of the Federal Reserve Act, which provides for notes, bills, or drafts drawn or issued for agricultural purposes.

Presentation of notes of farmers or consumers for the purchase price of farm tools or agricultural machinery by the dealer, with his indorsement for rediscount, does not change their classification as for agricultural purposes. *Bulletin*, February, 1916, p. 67.

26. Application of Section 5200.

The 10 per cent limitation imposed by section 5200 of the Revised Statutes is not intended to apply to the mere acceptance of a bill of exchange, but the provisions of section 5200 would apply to the indebtedness arising between the drawer of the bill and the accepting bank in case the drawer fails to furnish funds with which to meet the acceptance at maturity. *Bulletin*, February, 1916, p. 64.

27. Nonmember Trust Company Acceptances Ineligible.

Acceptances drawn by a manufacturer on and accepted by a trust company not a member of the Federal Reserve System, the proceeds of which are to be used for purchases of raw material and payment for labor where the goods had not been sold and no warehouse receipts or other instruments could be furnished, are held not to be eligible for purchase by a Federal Reserve Bank. *Bulletin*, February, 1916, p. 65.

28. Cattle, a Readily Marketable Commodity.

Cattle are a readily marketable commodity and a banker's acceptance secured by a chattel mortgage thereon is eligible for rediscount at a Federal Reserve Bank. *Bulletin,* February, 1916, p. 65. (Superseded by ruling in *Bulletin,* April, 1918, p. 309, No. 154 of this book.)

29. Rediscounts to a Reopened Insolvent Bank.

The Board upholds a Federal Reserve Bank in declining to give assurance to the receiver of an insolvent member bank that the Federal Reserve Bank will, upon the reopening of the insolvent bank, rediscount eligible paper freely, without requiring the indorsement of directors or other additional security. Offerings should be considered upon their merits. *Bulletin,* February, 1916, p. 66.

30. Bills Drawn in Foreign Countries.

Authorizing Federal Reserve Banks, pending a change in paragraph 5, Regulation T, of 1915, to buy bills of exchange drawn in foreign countries on American acceptors where in case it is impossible to obtain information from the acceptor or drawer a satisfactory statement from the indorsing bank or banker as to financial condition is obtained. Discount rate for bankers' acceptances includes domestic acceptances. *Bulletin,* March, 1916, p. 111.

31. Section 5202, Revised Statutes.

Under section 5202, Revised Statutes, a national bank may not borrow as bills payable in excess of its capital stock. Under Federal Reserve Act it may rediscount actual items of paper in its possession to any amount in the discretion of the Federal Reserve Bank of its district. *Bulletin,* March, 1916, p. 112.

32. Mercantile Firms Can Not Discount with Federal Reserve Banks.

Federal Reserve Banks can not discount commodity paper directly for mercantile firms. *Bulletin,* March, 1916, p. 112.

33. Notes for Dairy Cattle Eligible.

Notes signed by a farmer, the proceeds of which are used for the purchase of cows to be used as dairy cattle, are eligible for rediscount at the discretion of the Federal Reserve Bank notwithstanding the fact that the cattle are not primarily purchased for

"breeding, raising, fattening, and marketing of live stock." *Bulletin,* March, 1916, p. 112.

34. Stamp "Trade Acceptance" Has No Value.

The fact that a loan company has stamped a bill a trade acceptance and signed as "acceptor" does not in itself make it a trade acceptance, and being accepted by a bank is not eligible for purchase as a trade acceptance. *Bulletin,* March, 1916, p. 112.

35. Must Be Accepted by Drawee.

A draft to be eligible as an acceptance must be accepted by the drawee and not by any one else. A draft drawn on a land company and accepted by a bank cannot be purchased by a Federal Reserve Bank in the open market as a trade acceptance. For the same reason such a draft is ineligible as a trade acceptance. *Bulletin,* March, 1916, p. 112.

36. Trade Acceptances.

The fact that importation or exportation is involved does not exclude the character of a trade acceptance, and trade acceptances originating through importation from foreign countries which are indorsed by banks or bankers may be taken within the range of the discount rates for bankers' acceptances. (Amended.) *Bulletin,* April, 1916, p. 168.

37. Limit of 10 Per Cent to One Maker or Indorser.

If any particular paper presented by a member bank to a Federal Reserve Bank for rediscount, singly or added to the paper of the same makers or indorsers which the Federal Reserve Bank has already rediscounted for said member bank, amounts to a total of more than 10 per cent of the unimpaired capital and surplus of that bank, the Federal Reserve Bank has no authority for such rediscount. *Bulletin,* May, 1916, p. 224.

38. Loans Not Made Directly to Individuals.

Federal Reserve Banks do not make loans directly to individuals, but rediscount the paper of member banks which include all national banks and such State banks as may have joined the Federal Reserve System. *Bulletin,* June, 1916, p. 272.

39. Rediscounts Are for Face Value.

Paper of member banks is rediscounted by Federal Reserve Banks for its face value and without compensation. *Bulletin,* June, 1916, p. 272.

40. Exceptions to Section 5200.

The fact that a note or draft discounted by a national bank may be secured by cattle would not of itself bring it within the exceptions to section 5200, Revised Statutes, unless it is commercial or business paper actually owned by the person negotiating the same or unless it is a bill of exchange drawn in good faith against actually existing values. *Bulletin,* July, 1916, p. 329.

41. Domestic Acceptances.

National banks have no authority in law to accept domestic drafts of any kind. (May 26, 1916; law later amended.) *Bulletin,* July, 1916, p. 329.

42. Notes "On or Before" Eligible.

Notes payable "on or before" a certain date are eligible for rediscount with Federal Reserve Banks provided they conform to the law and regulations of the Board in other respects. *Bulletin,* August, 1916, p. 394.

43. Calculation of Interest.

Methods of calculating interest and discount in New York have been standardized; number of days is calculated by counting the nights intervening between the date the loan is made and the date it is paid. Discount on notes presented by borrowers and interest on call and time loans are figured on a daily basis with a 360-day table. *Bulletin,* September, 1916, p. 457.

44. Ten Per Cent Limitation Does Not Apply to Bills of Exchange.

The aggregate of eligible notes and bills bearing the signature or indorsement of any one person, company, firm, or corporation rediscounted by a Federal Reserve Bank for any one member bank shall at no time exceed 10 per cent of the unimpaired capital and surplus of such member bank. This restriction does not apply to bills of exchange drawn in good faith against actually existing values. *Bulletin,* September, 1916, p. 457.

45. No Limit on Rediscounts of Commercial Paper for Any One Bank.

The law places no limitation upon the amount of commercial paper which a member bank may rediscount with a Federal Reserve Bank, but leaves this to the judgment of the officers of the Federal Reserve Bank. *Bulletin,* September, 1916, p. 457.

46. Limit of Acceptances to Be Taken.

Law places upon the amount of eligible acceptances which may be discounted by a Federal Reserve Bank for a member bank a limit of one-half of the paid-up and unimpaired capital stock and surplus of the member bank. This may, however, upon application to the Federal Reserve Board, be increased to 100 per cent of the capital and surplus of a member bank. (Amended.) *Bulletin,* September, 1916, p. 457.

47. Advances on Cotton for Export.

Section 13 of Federal Reserve Act construed to justify a national bank in accepting a draft drawn upon it in settlement of advances for cotton being accumulated by cotton buyers for export. The fact that there is a temporary delay in actual shipment of goods is immaterial. *Bulletin,* September, 1916, p. 458.

48. "Staples" Defined.

"Staples" in the meaning of Regulation Q, series of 1915, include manufactured goods as well as raw materials, provided the goods are nonperishable and have a wide, ready market. This is held to include cotton yarns and flour. *Bulletin,* October, 1916, p. 523.

49. Indorsement on Waiver of Demand, Notice, and Protest.

Simple written indorsement is considered sufficient in connection with a waiver of demand, notice, and protest as to its own indorsement exclusively on the part of a member bank. *Bulletin,* October, 1916, p. 524.

50. Business Paper and Section 5200, Revised Statutes.

The Board finds it necessary to adhere to its established policy of not making any general ruling on the question how much a bank may invest in any particular security. It held, however, that if a firm is a bona fide owner for value of the acceptances of any particular institution and such acceptances are sold to or discounted with a member bank the acceptances could no doubt be treated as commercial or business paper actually owned by the party negotiating them and would therefore be excepted from the limitations of section 5200, Revised Statutes. Ruling rests upon the fact that paper is actually commercial or business paper owned by the person negotiating it. (November 4, 1916.) *Bulletin,* December, 1916, p. 678.

51. Government Does Not Fix Interest Rate of Member Bank.

The Government does not fix the rate of interest which national banks may charge upon loans, but does approve the rate of rediscount at which paper may be rediscounted at Federal Reserve Banks. *Bulletin*, December, 1916, p. 679.

52. Cattle for Breeding, Grazing, or Fattening as Security.

Loans on cattle for breeding, grazing, or fattening may be made under the classification of six months' agricultural paper and the paper be rediscounted by a member bank at its Federal Reserve Bank. *Bulletin*, December, 1916, p. 679.

53. Collateral Bankers' Acceptances—When Drawn Against Exports.

A draft drawn by an acceptance house to reimburse itself for the purchase of an acceptance based upon a transaction involving the importation or exportation of goods cannot legally be accepted by a national bank even though collateraled by the acceptance purchased. *Bulletin*, January, 1917, p. 28.

54. Purchase of Bank's Own Acceptances.

A member bank's own acceptances purchased by it must be treated as loans and as such are subject to the 10 per cent limitation. *Bulletin*, January, 1917, p. 28.

55. Bankers' Acceptances Against Bullion.

Gold bars may be properly considered as goods, and accordingly 60-day bills when accepted by banks and bankers against such a shipment would be eligible for purchase by Federal Reserve Banks as based upon or involving the exportation of goods. *Bulletin*, January, 1917, p. 29.

56. Bills Drawn Against Coin.

Gold coin is "goods" within the meaning of section 13 of the Federal Reserve Act, and therefore a bill of exchange drawn to finance a shipment of gold coin from this country either to Europe or to Canada is eligible for purchase by a Federal Reserve Bank if otherwise in conformity with the provisions of law and the regulations of the Federal Reserve Board. *Bulletin*, January, 1917, p. 29.

57. Differential as to Acceptances.

There is no objection to a moderate differential, say one-fourth of 1 per cent, to apply between member-bank acceptances and

the acceptances of large nonmember institutions well known throughout the country and whose acceptances necessarily have a broad market. *Bulletin,* January, 1917, p. 28.

58. Bankers' Acceptances—Security Therefor.

There is no objection to permitting the mills to substitute other warehouse receipts for cotton receipts during the life of the acceptance. In purchasing or discounting bankers' acceptances or other bills which are secured by warehouse receipts, etc., Federal Reserve Banks should make sure that the receipt is issued by a warehouse which is independent of the borrower. If the credit were granted before the importation took place, there would be no objection to continuing or renewing the acceptance while the goods are on the docks. *Bulletin,* January, 1917, p. 30.

59. Trade Acceptances for Advertising.

A draft or bill of exchange drawn by a publisher, or other advertising agency, on the purchaser of advertising space and accepted by such purchaser shall be considered a trade acceptance, provided the advertisement on which the draft or bill is based is for the purpose of promoting or facilitating the production, manufacture, distribution, or sale of goods, wares, merchandise, or agricultural products, including live stock; and provided further that such advertisement is not illegal and is not for the purpose of promoting or facilitating any transaction which is prohibited by the laws of the State in which it is to be consummated. *Bulletin,* February, 1917, p. 114.

60. Limitations Imposed by Section 13 of Act.

In any case where shipping documents or warehouse receipts are held by the acceptor the 10 per cent limit does not apply; so also in any case where the acceptor holds a trust receipt which does not enable the borrower to obtain the goods for his own use, the 10 per cent limit does not apply; but in any case where the bank holds merely the ordinary trust receipt which gives it only a lien on the goods in the hands of the purchaser or on their proceeds, the 10 per cent limit should apply. *Bulletin,* April, 1917, p. 286.

61. Trade Acceptances Defined.

Only those trade acceptances which are drawn at the time of, or within a reasonable time after, the shipment or delivery of

goods sold can be treated as bills of exchange drawn against actually existing value. *Bulletin,* April, 1917, p. 287.

62. Acceptances—Exports Defined.

Clean drafts drawn by an exporter in Chile for the purpose of providing funds with which to purchase beans, peas, etc., from farmers in Chile, are ineligible unless the Chilean exporter is under contract to ship the peas, beans, etc., purchased from the farmers in that country, to some other country, and the member bank has a guarantee to this effect. *Bulletin,* May, 1917, p. 378.

63. Where Trade Acceptance Is Payable.

If the terms of the original draft make it payable at the banking house of the drawee the drawee may nevertheless accept it payable elsewhere—as, for example, at a Federal Reserve Bank—provided the acceptance does not stipulate in terms that it is payable only at the Federal Reserve Bank and not elsewhere. *Bulletin,* May, 1917, p. 379.

64. Bankers' Acceptances Drawn Against Future Importations.

A national bank may properly accept a draft drawn for the purpose of importing goods whether or not the sale of the goods under consideration has actually been consummated at the time of the acceptance of the draft. *Bulletin,* July, 1917, p. 527.

65. Bankers' Acceptances Drawn Against Shipment of Goods from a Corporation to Its Agent.

A member bank may properly accept a draft drawn against the shipment of goods from a corporation to its agent or branch even though no sale of the goods is involved in the transaction. The right of the bank to resell or reissue such acceptances is, in the opinion of counsel, fully recognized by the authorities, and where this is done they may be treated as acceptances outstanding and not as loans. *Bulletin,* September, 1917, p. 691.

66. Drafts Drawn to Finance Sale of Goods to Allied Purchasing Commissions.

Even if this transaction did not involve the exportation of goods a member bank might accept a draft drawn for the purpose of financing it if it involved a domestic shipment of goods and if the shipping documents are attached at the time of acceptance. An acceptance of that character would seem to be permissible in

any case where the goods are shipped from the interior to the seaboard preparatory to exportation. *Bulletin,* November, 1917, p. 878.

67. Drafts Drawn "On or Before 90 Days After Sight."

Bills drawn "on or before 90 days after sight" should not be encouraged or countenanced. *Bulletin,* December, 1917, p. 949.

68. Trade Acceptances of Retailers.

A bill of exchange drawn by the seller of goods and accepted by the purchaser of those goods is a trade acceptance, regardless of whether or not the purchaser intends to resell the goods or to use them for his own purpose. *Bulletin,* January, 1918, p. 30.

69. Warehouse Receipts.

Warehouse receipts offered as security for bills accepted by member banks under authority of section 13 of the Federal Reserve Act must be issued by warehouses which are independent of the borrower. The corporation issuing such receipt must be organized in good faith as an independent corporation, and its affairs must be administered by duly authorized officers and agents independent of the borrower in order to comply with the rulings of the Board referred to. *Bulletin,* January, 1918, p. 31.

70. Acceptance Given by Acceptance House or Broker.

The note of an acceptance house or broker could not be said to have been used for an industrial, agricultural, or commercial purpose, since the business of such acceptance house or broker is not such as to come within any of these classifications. The fact that the note is secured by eligible paper is immaterial if the proceeds are not used for one of the purposes mentioned. *Bulletin,* February, 1918, p. 108.

71. Trade Acceptances, Eligibility of, for Rediscount.

The trade acceptance is an instrument which carries upon its face the evidence of the commercial character of the transaction which gave it birth. *Bulletin,* February, 1918, p. 109.

72. Form of Draft.

A draft made payable at sight and accepted by the drawee is negotiable even if it contains the following provision: "With interest at the rate of 6 per cent per annum if payment is delayed." *Bulletin,* February, 1918, p. 109.

73. Limitations Under Section 5200 R. S.

Where a national bank has already loaned 10 per cent of its capital and surplus to a certain company, it may, while the loan is still outstanding, obligate itself as acceptor on a draft drawn by that same company. The limitations of section 5200 on the amount of money which may be borrowed from a member bank are separate and distinct from and in no way restrict the limitations of section 13 of the Federal Reserve Act on the amount of drafts which a member bank might accept for any one firm or corporation. *Bulletin,* March, 1918, p. 197.

74. Insurance Premium—Trade Acceptance Against Insurance.

A draft drawn by a casualty company against a policy holder for premiums could hardly be said to be a draft by the seller on the purchaser of goods sold and would not, in the opinion of the Board, come within the Board's present definition of a trade acceptance. *Bulletin,* April, 1918, p. 309.

75. Trade Acceptance Against Costs of Installation.

It is customary for the seller of certain goods to contract for their installation and to include the cost of installation in the selling price. In the opinion of the Board an acceptance drawn for the purchase price, including cost of installation, would come within the Board's definition of a trade acceptance. *Bulletin,* April, 1918, p. 310.

76. Syndicate Acceptance Credits.

The Board has authorized expression of its views in accordance with the principles outlined in a memorandum attached. The banks of New York may, during a period which can be declared ended at any time, proceed upon the basis of this memorandum. The essential principles may be summed up as follows:

(1) Acceptance credits opened for periods in excess of 90 days should only, in exceptional cases, extend over a period of more than one year, and in no case for a time exceeding two years.

(2) Banks which are members of groups opening these credits should not buy their own acceptances, and where an agreement is made with the drawer for purchase of acceptances for future delivery, the rate should not be a fixed one, but should be based upon the rate ruling at the time of the sale.

(3) Transactions covered by these credits should be of a legitimate commercial nature, and acceptances must be eligible according to the rules and regulations of the Board.

(4) Whenever syndicates are formed for the purpose of granting acceptance credits for more than moderate amounts, Federal Reserve Banks should be consulted with regard to the transaction. The question of eligibility, both from the standpoint of the character of the bill and of the amount involved, will be passed upon by the Federal Reserve Bank subject to the approval in each case of the Federal Reserve Board. *Bulletin,* April, 1918, p. 257.

76a. Acceptance of Drafts Drawn for the Purpose of Furnishing Dollar Exchange.

Under the provisions of Regulation C, Series of 1917, subdivision (B), it is provided that any member bank desiring to accept drafts drawn by banks or bankers in foreign countries for the purpose of furnishing dollar exchange shall first make application to the Federal Reserve Board setting forth the usages of trade in the respective countries in which the drawer banks or bankers are located, and under the terms of the law no member bank may accept such drafts unless it is required by the usages of trade in the country in which the drawer bank is located.

If a national bank wishes to make such an application with respect to a country as to which no previous application has been granted, it should submit to the Board evidence that the usages of trade in that country are such as to require the drawing of drafts of this character. The Board has heretofore ruled that there is nothing in the provisions of section 13 of the Federal Reserve Act which can be construed to permit the acceptance by member banks of drafts drawn merely for the purpose of correcting adverse exchange conditions. An application can not be granted, therefore, if it appears that the drafts are to be drawn not because the usages of trade so require but merely because dollar exchange is at a premium in the country where the drafts are to be drawn. This ruling, of course, has no bearing upon the question of whether particular drafts are eligible for acceptance by member banks under those provisions of section 13 of the Federal Reserve Act which relate to the acceptance of drafts which grow out of transactions involving the importation or exportation of goods. *Bulletin,* August, 1920.

CHAPTER XIX

OPINIONS OF COUNSEL OF THE FEDERAL RESERVE BOARD [1]

77. Conditions Attached to and Affecting Negotiability of Bills of Exchange and Acceptances.

A bill of exchange, in order to be negotiable, must be an unconditional order to pay, on demand or at a fixed or determinable future time, a certain sum of money to order or to bearer. If payment is dependent upon the happening of a certain contingency, the bill is conditional and nonnegotiable. If payment is confined to the proceeds of a particular fund and is not chargeable to the general credit of the drawer, the bill is conditional and nonnegotiable.

A general acceptance of a conditional bill or a conditional acceptance of an unconditional bill makes the acceptance a conditional one and destroys its negotiability.

There is some doubt in the courts whether the mere reference to a particular consignment of goods makes the bill conditional, some courts stating that it is merely an indication of the fund out of which the drawee is to reimburse himself; other courts holding that it makes the bill conditional because limiting payment to the proceeds of the particular shipment referred to. There is no doubt, however, that a reference, in general terms, on the face of an accepted bill to the fact that it is based on the exportation or importation of goods, would not make it conditional and nonnegotiable, and it would not, therefore, be ineligible for discount under the provisions of section 13 of the Federal Reserve Act. *Bulletin,* May, 1915, p. 21.

78. Discount of Acceptances "Based on the Importation or Exportation of Goods."

Federal Reserve Banks may, under section 13 of the Federal Reserve Act, discount acceptances based on the shipment of goods (*a*) between the United States and any foreign country,

[1] Complete as published in the *Federal Reserve Bulletin,* 1915-1920.

(*b*) between any two or more foreign countries, and (*c*) between the continental United States and Porto Rico, the Philippines, or the Canal Zone; but not acceptances based on the shipment of goods between the continental United States and Hawaii or between any two parts of the continental United States. (Act amended September, 1916.) *Bulletin,* June, 1915, p. 91.

79. Discount of Acceptances Indorsed by Member Banks Located in Another District.

Federal Reserve Banks may, under the provisions of section 13, discount acceptances based on the importation or exportation of goods, provided they have a maturity at time of discount of not more than three months, and provided further, that they are indorsed by at least one member bank. It is immaterial whether this member bank is located in the district of the Federal Reserve Bank which is making the discount or in any other district, the term "member bank" being broad enough to include member banks wherever located.

Such discounts, being made under the provisions of section 13, are eligible as collateral security for Federal Reserve notes issued under the provisions of section 16. *Bulletin,* June, 1915, p. 98.

80. Rediscount of Drafts Payable on Condition.

A draft made "payable on arrival of car" is nonnegotiable, not being payable at a determinable future time, and is therefore ineligible for rediscount by a Federal Reserve Bank. *Bulletin,* August, 1915, p. 219.

81. Transactions Involving the Importation or Exportation of Goods.

A transaction in order to be the basis of a draft or bill eligible for acceptance by a member bank must itself involve the importation or exportation of goods. A transaction wholly independent of the transaction covering the importation or exportation of goods is not sufficient basis for an acceptance under the terms of section 13. (Act amended September, 1916.) *Bulletin,* September, 1915, p. 276.

82. Waiver of Demand, Notice, and Protest.

The acceptor of a bill of exchange is the principal debtor. The law requires that notice of demand and protest be given to parties secondarily liable in case of dishonor. This right to receive notice is a personal one which may be waived by the parties entitled

thereto—that is, the drawer and indorsers; but such waiver has no effect on the acceptor or principal debtor. *Bulletin,* September, 1915, p. 277.

83. Negotiability of Bills of Exchange.

The negotiability of a bill of exchange is not affected by provisions which waive demand, notice, and protest; which waive homestead exemption rights; and which provide for the costs of collection and attorney's fees. *Bulletin,* May, 1916, p. 226.

84. Rediscount of the Assignment of Open Accounts.

The assignment of an open account is not negotiable paper and is not eligible for rediscount by a Federal Reserve Bank under the terms of section 13 of the Federal Reserve Act. *Bulletin,* May, 1916, p. 227.

85. Limit on Rediscounts of Commercial or Business Paper.

While a member bank may acquire commercial or business paper from the same person in excess of 10 per cent of its unimpaired capital and surplus (sec. 5200, U. S. R. S.), its Federal Reserve Bank can not rediscount such paper bearing the signature or indorsement of the same person in excess of that amount (sec. 13, Federal Reserve Act).

Section 13, Federal Reserve Act, does not amend section 5200, United States Revised Statutes. *Bulletin,* June, 1916, p. 274.

86. Own Member Bank Acceptances.

When a member bank purchases its own acceptance before maturity such acceptance need not be included in the aggregate of acceptances authorized by section 13. *Bulletin,* August, 1916, p. 397.

87. Check Payable in Exchange at Current Rates.

Checks drawn with the clause "Payable in exchange at current rates," printed or stamped upon their face, are not valid negotiable instruments, since they are not made payable in a sum certain in money as required by law, but are made payable in domestic exchange. Federal Reserve Banks have no authority to charge such quasi checks to the accounts of member banks. *Bulletin,* September, 1916, p. 457.

88. Qualified Acceptances.

A bill of exchange drawn payable "at sight" and accepted payable in three months is a qualified or conditional acceptance, and

the maker and prior indorsers are released. The instrument in effect becomes the promissory note of the acceptor, and would not come within the exception to section 5200 as a "bill of exchange" drawn in good faith against actually existing value. *Bulletin,* September, 1916, p. 463.

89. Agricultural Products or Implements.

The purchase or sale of an agricultural product, or of implements or other commodities used in agriculture, constitutes a commercial transaction. Where the proceeds of a note made by a merchant are used to purchase millet seed to be later retailed or sold, such a note can not be treated as one given for an agricultural purpose and can not be discounted by a Federal Reserve Bank if it has a maturity at time of discount of more than 90 days. *Bulletin,* October, 1916, p. 526.

90. Presentment of Bills for Acceptance.

The drawer and indorsers of a bill of exchange made payable on a date specified in the bill are not discharged by a failure to present for acceptance, unless the bill expressly provides that it must be presented for that purpose, or unless it is payable elsewhere than at the residence or place of business of the drawee. *Bulletin,* November, 1916, p. 608.

91. Indorsement of Negotiable Paper.

An indorsement of negotiable paper which is made upon a separate piece of paper attached to the original instrument is a valid indorsement of such instrument. *Bulletin,* November, 1916, p. 610.

92. Member Bank Acceptances.

(*a*) The limitations imposed by section 5202, Revised Statutes, on the liabilities incurred by any national bank do not apply to acceptances of such banks.

(*b*) A member bank may legally purchase its own acceptances, but such a transaction is equivalent to a loan or advance to the customer for whom the acceptance was made and the liability of such customer becomes subject to the limitations of section 5200, Revised Statutes.

(*c*) The limitations imposed by section 5200, Revised Statutes, on the amount of money which may be borrowed by any individual from a member bank do not apply to acceptances of such bank.

(*d*) The power of member banks to accept drafts or bills of exchange should not be confused with the power to discount the acceptances of others. *Bulletin,* December, 1916, p. 680.

93. Banker's Acceptance Secured by Bill of Sale.

A banker's acceptance drawn for the purpose of purchasing goods secured by a bill of sale of stock in hand is not eligible for purchase by Federal Reserve Banks under the provisions of Regulation B, series of 1916. *Bulletin,* December, 1916, p. 684.

94. Bills, Demand and Sight, When to Be Presented.

Demand and sight bills of exchange must be presented for payment by the holder within a reasonable time. Demand and sight bills become due and payable on the date on which they are presented for acceptance.

If a member bank holds demand and sight drafts for more than a reasonable time after acceptance, they must be classed as overdue paper and considered in substance as promissory notes of the acceptor subject to the limitations imposed by section 5200. *Bulletin,* January, 1917, p. 31.

95. Trade Acceptances Based on Advertising Space.

The Federal Reserve Board may properly rule that a draft or bill of exchange drawn by the seller on the purchaser of advertising space and accepted by such purchaser is a trade acceptance. *Bulletin,* February, 1917, p. 116.

96. Bills Drawn Against Actually Existing Value.

A bill of exchange discounted before acceptance may be said to be drawn against actually existing value, within the meaning of section 13 of the Federal Reserve Act, when and only when it is accompanied by shipping documents, warehouse receipts, or other papers securing title to the goods sold. An accepted bill of exchange, unaccompanied by shipping documents or other such papers, may be considered as drawn against actually existing value if drawn against the drawee at the time of, or within a reasonable time after, the shipment or delivery of the goods sold. In this latter case there must be reasonable grounds to believe that the goods are in existence in the hands of the drawee either in their original form or in the shape of the proceeds of their sale. *Bulletin,* March, 1917, p. 195.

97. Interest on Drafts.

A provision in a draft or bill of exchange that it is payable "with interest at the rate of — per cent per annum after maturity if payment is delayed" does not affect the negotiability of the instrument. *Bulletin,* March, 1917, p. 200.

98. Acceptances, Where Payable.

An acceptance to pay at a particular place different from the residence of the acceptor is a general acceptance, unless it expressly states that the bill is to be paid there and not elsewhere, and does not render the bill nonnegotiable. *Bulletin,* April, 1917, p. 289.

99. Drafts Payable on or Before Certain Date.

Drafts payable "ninety days from date or before on five days after demand (i.e., on five days' notice) by the holder hereof" are negotiable and eligible for discount with a Federal Reserve Bank. *Bulletin,* April, 1917, p. 291.

100. Eligibility of Bankers' Domestic Acceptances.

A draft drawn by the purchaser of goods against a national bank is not eligible for acceptance by that bank under the provisions of section 13 of the Federal Reserve Act merely because it is secured by a bill of lading covering the goods bought. *Bulletin,* May, 1917, p. 380.

101. Bankers' "Dollar Exchange" Acceptances.

The 50 per cent limit imposed upon the amount of drafts which a member bank may accept for the purpose of furnishing dollar exchange is separate and distinct from and not included in the limits imposed by section 13 upon the amount of drafts or bills of exchange drawn against the shipment of goods or against warehouse receipts covering readily marketable staples, which a member bank may accept. *Bulletin,* July, 1917, p. 528.

102. Status of Member Banks' Acceptances.

An acceptance which has been purchased by the accepting bank and subsequently rediscounted with its Federal Reserve Bank is not subject to the limitations of section 5200 of the Revised Statutes. *Bulletin,* September, 1917, p. 696.

103. Drafts with Documents Attached—Definition.

A provision of section 13 which authorizes any member bank to accept drafts based upon the domestic shipment of goods, pro-

vided shipping documents are "attached," should not be construed so as to require that the documents be physically fastened to the draft. It is sufficient if the accepting bank has possession of the documents at the time of acceptance. *Bulletin,* October, 1917, p. 765.

104. Trust Receipts as Actual Security for Acceptance Transactions.

If an acceptance is secured by shipping documents which are surrendered by the acceptor for a trust receipt which permits the purchaser of the goods to retain control of the goods, the accepting bank can not be said to be secured "by some other actual security" as provided in section 13 of the Federal Reserve Act. A trust receipt, however, which does not permit the purchaser to procure control of the goods, may properly be said to be actual security within the meaning of the act. *Bulletin,* November, 1917, p. 881.

105. Drafts to Finance Sales to the United States Government.

Drafts drawn in connection with sales to the United States Government of lumber or other material can not be treated as bills of exchange drawn against actually existing value and are subject to the limitations of section 5200, Revised Statutes, when discounted by national banks. Such drafts do not conform to the requirements of commodity paper as defined by the Federal Reserve Board and should not be discounted at the rate prescribed for such paper. *Bulletin,* January, 1918, p. 32.

106. Drafts Drawn on Sales Corporations.

A draft drawn by a lumber corporation upon a sales corporation which it and a number of other lumber concerns have organized will, when accepted, become a trade acceptance, even though the selling corporation is a stockholder of the sales corporation, provided the sales corporation purchases the lumber outright from the lumber corporation and provided, further, that the sales corporation is organized in good faith and not merely to act as an agent for the purpose of evading the law. *Bulletin,* January, 1918, p. 33.

107. Bills Payable to the Order of the Drawee.

A bill made payable to the order of the drawee is not negotiable until the drawee as payee has indorsed it. When it has been accepted and indorsed by the drawee it is a valid negotiable

instrument in the hands of a third party, and the drawer is not released, since the terms of his order have been specifically complied with. *Bulletin,* February, 1918, p. 110.

108. Drafts with Documents Attached—Conveyance of Title.

Under the provision of section 13, which authorizes any member bank to accept drafts based upon domestic shipment of goods, provided shipping documents conveying or securing title are attached, such documents must be made out or indorsed so as to convey or secure title to the accepting bank. *Bulletin,* March, 1918, p. 198.

109. Trade Acceptance Providing for Discount if Paid at Maturity.

A trade acceptance which consists of an order to pay a certain amount, which is the amount of the debt minus a discount for prompt payment at maturity, or, if not paid at maturity, to pay a greater amount, which is the amount of the debt without any discount, is an order to pay a sum certain and is negotiable. *Bulletin,* March, 1918, p. 200.

110. Bankers' Acceptances Without Documents, as "Accommodation."

The acceptance of a draft by a member bank against an acceptance agreement which purports to assign to the bank certain collateral security, but which does not specifically mention any security as assigned, is an ordinary accommodation acceptance, and is not authorized by law. *Bulletin,* April, 1918, p. 311.

111. Acceptances by Correspondents—When a Direct Liability.

Drafts accepted by foreign correspondents at the request, and under the guarantee of a national bank in the United States, should be reported as a direct liability of such national bank, and should be treated as subject to the limitations imposed by the Federal Reserve Act on the acceptance power of national banks. *Bulletin,* April, 1918, p. 311.

112. Bankers' Export Acceptances Defined.

Where a dealer is engaged in purchasing the same character of goods for export and for domestic use, a member bank accepting his draft drawn to finance an export transaction should require proper assurances that proceeds of draft are to be used in connection with such export transaction and that the acceptance will

be paid out of proceeds of sale of goods exported. *Bulletin,* April, 1918, p. 314.

113. Rediscount of Paper Secured by War Savings Stamps.

Notes, drafts, and bills of exchange which are secured by war savings stamps and the proceeds of which were used to purchase or carry war savings stamps are ineligible for rediscount with a Federal Reserve Bank. June 8, 1918.

114. Indorsement "Without Recourse."

If a note is otherwise eligible for rediscount, the fact that it bears a "without recourse" indorsement of a nonmember bank will not affect its eligibility. July 3, 1918.

115. Bills Payable with Attorney's Fees or Collection Charges.

While a bill containing a provision for payment of the costs of collection and attorney's fees, if it is dishonored at maturity, is a valid negotiable instrument, a bill drawn for a fixed sum "with collection charges" is not a negotiable instrument unless it is so drawn as to show that no collection charges are to be included unless the bill is dishonored at maturity. July 19, 1918.

116. Indorsement of Acceptances.

Acceptances must bear the signature in blank or to order of the last party to whom the acceptance has been indorsed, but if the acceptance is indorsed in blank it can, of course, change ownership from one holder to another without being indorsed by each subsequent holder, and the title would pass all the same. July 12, 1918.

117. Drafts Secured by Cattle Notes.

Member banks are not authorized to accept drafts of a cattle-loan company secured by notes of the owner of the cattle, although such notes may be secured by a chattel mortgage executed by the owner of the cattle to the cattle-loan company and the notes and chattel mortgage accompany the draft at the time of acceptance. July 23, 1918.

118. Trade Acceptance Providing for Extension of Time.

A note or draft containing a provision for an extension of time should not be approved for general use by the Federal Reserve Board. July 25, 1918.

119. Trade Acceptance Providing for Discount if Paid at Certain Time Before Maturity.

A trade acceptance providing for a fixed discount, if paid at a certain time before maturity, should not be approved for general use by the Federal Reserve Board. August 1, 1918.

120. Liability Notes and Bills Rediscounted.

A note or bill rediscounted in good faith by a member bank which is no longer owned or held by the bank need not be included as a liability of the maker to the bank, within the meaning of section 5200, Revised Statutes. Notes or bills rediscounted under an agreement to repurchase, or which are merely credited to the account of the bank offering them for rediscount, are subject to the limitations of section 5200. August 7, 1918.

121. Rediscount of Draft for Railroad Supplies.

Where a railroad company purchasing supplies accepts the draft of the seller and the seller or a third party to whom the draft is sold in good faith discounts it with a member bank, such draft is eligible for rediscount with a Federal Reserve Bank. August 14, 1918.

122. Trade Acceptances as Bills of Exchange Drawn Against Actually Existing Values

A trade acceptance may or may not be classified as a bill of exchange drawn against actually existing values.

The distinction is not important in so far as the limitations of section 5200 are concerned, since such a trade acceptance negotiated in good faith by the bona fide owner would be exempt from the limitations of section 5200 as "commercial or business paper actually owned by the person negotiating the same," even if it is not exempt as a "bill of exchange drawn in good faith against actually existing values."

Section 13 of the Federal Reserve Act, however, limits the amount of paper of any one borrower rediscounted for any one bank to 10 per cent of such bank's capital and surplus; and trade acceptances are subject to this limitation, unless they can be classified as "bills of exchange drawn against actually existing values."

Bills drawn by the seller against the purchaser and accepted before the sale or delivery of the goods should not be treated as bills drawn against actually existing values, since such goods are not in the possession of the drawee either in the original form

or in the shape of the proceeds of their sale; except where the goods have passed out of the possession of the drawer and have been placed in storage subject to the control or order of the drawee. August 21, 1918.

123. Stamp Tax on Trade Acceptances.

The following ruling has been made by the Deputy Commissioner of Internal Revenue as to who should affix the revenue stamps to trade acceptances:

TREASURY DEPARTMENT,
Washington, September 13, 1918.

GENTLEMEN: Answering your letter of the 27th ultimo received by reference from the Federal Reserve Board, you are advised that the drawer, as the person "who makes, signs, or issues" a trade acceptance, should affix and cancel stamps covering the tax required thereon under subdivision 6, schedule A, act of October 3, 1917.

There is nothing in the law, however, that would prevent the acceptor from affixing the requisite stamps to a trade acceptance and agreeing with the drawer of the draft as to which of the parties would ultimately bear the expense.

Respectfully,

B. C. KEITH, *Deputy Commissioner.*

124. Acceptance of Drafts of Food Administration Grain Corporation.

The Federal Reserve Board has authority to permit member banks to accept drafts of the Food Administration Grain Corporation secured by some form of receipt or notation on the draft itself, signed by a trustee holding warehouse receipts covering grain stored in warehouses, identifying it as a draft secured by the grain stored. September 16, 1918.

125. Drafts Growing Out of Transactions Involving the Importation or Exportation of Goods.

Drafts drawn under an agreement whereby the drawer agrees to manufacture and import into the United States in time to meet the maturity of such drafts certain products which shall have been sold by the shipper and are to be ready for immediate delivery and consigned to a firm of bankers procuring the acceptance of such drafts for the drawer are not eligible for acceptance by member banks; since they do not grow out of "transactions involving the importation or exportation of goods" within the meaning of section 13 of the Federal Reserve Act. September 16, 1918.

126. Inspection of Goods Covered by Bill of Lading Drafts.

An express provision in a bill of lading authorizing the consignee to inspect the goods before acceptance of the draft to which the bill of lading is attached does not affect the negotiability of the draft. April 19, 1919.

127. Documents Attached Acceptances Covering Domestic Shipments of Goods.

A draft drawn upon a national bank covering current domestic shipments of goods is not eligible for acceptance by such bank under the provisions of section 13 of the Federal Reserve Act unless shipping documents are attached at the time of acceptance. April 29, 1919.

128. Acceptance of Drafts Drawn Abroad and Secured by Foreign Warehouse Receipts.

A draft drawn abroad, payable in the United States in dollars and secured by a warehouse receipt covering readily marketable staples stored in a warehouse located in a foreign country, is eligible for acceptance by a member bank and after acceptance is eligible for rediscount by a Federal Reserve Bank under the provisions of section 13 of the Federal Reserve Act, but, under the terms of the Board's present regulations, is not eligible for purchase by a Federal Reserve Bank in the open market, under the provisions of section 14 of the Federal Reserve Act. July 25, 1919.

129. Renewal of Drafts Drawn by the Purchaser of Goods and Secured at the Time of Original Acceptance by Warehouse Receipts or Bills of Lading.

As defined in an opinion published on page 380 of the May, 1917, *Bulletin*, a draft drawn by the purchaser of goods is not eligible for acceptance merely because it is secured at the time of acceptance by a bill of lading covering the goods bought. It must be established that the proceeds of the draft are applied to the payment of those goods. No national bank may properly accept the renewal of a draft drawn by the purchaser of goods and secured at the time of original acceptance by a bill of lading or warehouse receipt unless the renewal acceptance complies with the terms of the law and the rulings and regulations of the Board applicable to the original acceptance. *Bulletin*, January, 1920, p. 66.

130. Future Delivery Warehouse Acceptances Covering Goods Under Contract for Sale and Delivery at a Remote Period.

Although a national bank may accept drafts drawn upon it having not more than six months' sight to run which are secured at the time of acceptance by a warehouse receipt conveying or securing title covering readily marketable staples, nevertheless, such an acceptance must not be made subject to any renewals. *Bulletin,* March, 1920, p. 277.

131. Limitation Upon the Aggregate Rediscounts of the Paper of One Borrower Made for Different Member Banks.

A Federal Reserve Bank may properly decline to discount for a member bank the paper of any one borrower on the ground that the Federal Reserve Bank has theretofore discounted for other member banks what it deems to be a sufficient amount of that particular borrower's paper. *Bulletin,* March, 1920, p. 277.

132. Rediscounts of Commercial or Business Paper for a Member State Bank.

Under the terms of section 13 no Federal Reserve Bank may properly rediscount for any State member bank the paper of any one borrower in excess of 10 per cent of the capital and surplus of that member bank. Bills of exchange which are drawn against actually existing values are expressly excepted from this limitation but commercial or business paper must be included within it.

133. Negotiability of a Bill of Exchange Accepted Before It Has Been Signed by the Drawer.

Under the terms of the negotiable instruments law a bill of exchange may be accepted before it has been signed by the drawer.

134. Domicile Bills.

Although a draft drawn by an American exporter upon a foreign buyer and accepted by that buyer payable in the United States in dollars may be technically eligible for discount under the terms of section 13 of the Federal Reserve Act, nevertheless, a Federal Reserve Bank may, in its discretion, decline to discount such an acceptance on the ground that inasmuch as it is a domicile bill, it is not a desirable investment. *Bulletin,* April, 1920, p. 386.

135. Bill of Lading Drafts.

Undertaken by several of the Federal Reserve Banks as a collection transaction. The drafts are credited upon receipt and when paid the sending bank is charged interest at the published rate for the time the draft is outstanding plus the actual cost of collection. *Bulletin,* February, 1917, p. 114.

136. Method of Computing Discount.

Aside from the fact that New York and Boston Federal Reserve Banks figure discount on a 365-day basis while all the other Federal Reserve Banks use 360 days, the methods used by the Federal Reserve Banks do not vary. Discount is computed on the actual number of days the paper has to run, the date of payment of course varying in different States in accordance with the laws regarding holidays in force in the different jurisdictions. *Bulletin,* December, 1917, p. 951.

137. Basis for Figuring Interest for Rediscount Transactions.

In connection with rediscounts with Federal Reserve Banks, the point has been raised by one bank that it is its habit to figure discounts on a basis of 360 days to the year. It has been decided that for rediscounts on transactions between Federal Reserve Banks the basis of 365 days to the year should be applied. *Bulletin,* February, 1918, p. 109.

138. Bonds or Notes of the United States as Security for Rediscounted Paper.

Any member bank may rediscount with its Federal Reserve Bank, a note, draft, or bill drawn for the purpose of carrying or trading in bonds or notes of the United States, and may also procure advances from its Federal Reserve Bank on its own promissory note secured by a deposit of or pledge of bonds or notes of the United States. *Bulletin,* March, 1917, p. 158.

139. Demand Paper Not Eligible for Rediscount.

The board has ruled that a demand note or bill is not eligible under the provisions of the act, since it is not in terms payable within the prescribed 90 days, but, at the option of the holder, may not be presented for payment until after that time. *Bulletin,* May, 1917, p. 378.

140. Notes and Bills Drawn for Trading in Government Obligations.

Notes, drafts, and bills of exchange drawn for the purpose of carrying or trading in bonds or notes of the United States and

rediscounted under the provisions of section 13 are eligible as collateral security for the issue of Federal Reserve notes. *Bulletin,* June, 1917, p. 495.

141. Indorsement on Bill of Exchange.

An indorsement on a bill of exchange which expressly exempts the indorser from any responsibility for the validity or genuineness of an accompanying bill of lading or other paper or for the quality, quantity, or delivery of goods covered thereby, does not render the bill non-negotiable or ineligible for purchase by a Federal Reserve Bank. *Bulletin,* June, 1917, p. 457.

142. Eligible Paper Secured by Real Estate Mortgage.

A note, draft, or bill of exchange drawn for commercial purposes and otherwise eligible for rediscount under the provisions of section 13 of the Federal Reserve Act is not rendered ineligible merely because it is secured by a mortgage on real estate. *Bulletin,* June, 1917, p. 458.

143. Paper Secured by Warehouse Receipts.

Where the proceeds of loans made by member banks are used for any industrial, agricultural, or commercial purpose, the notes, drafts, and bills of exchange evidencing such loans are eligible for rediscount with a Federal Reserve Bank. Where the proceeds are used merely for speculative purposes such notes are not eligible. *Bulletin,* June, 1917, p. 456.

144. Paper of Waterworks Company.

If the proceeds of the paper have been or are to be used to provide funds for pay roll, purchases of coal, etc., and if the paper is otherwise in conformity with the law and the provisions of the Board's regulations, it is eligible for rediscount by the Federal Reserve Bank. *Bulletin,* July, 1917, p. 527.

145. Demand Notes.

A note made payable "on demand, and if no demand is made, then on ——," is eligible for rediscount by a Federal Reserve Bank, provided the date to be filled in is not more than 90 days from the date of discount, and provided further it conforms to the other provisions of law and the regulations. *Bulletin,* July, 1917, p. 527.

146. Bills Payable with Exchange and Collection Charges Not Negotiable.

A bill made payable with "collection charges" is not a negotiable instrument, though the Negotiable Instruments Law pro-

vides that an instrument payable "with exchange" does not lose its negotiability. *Bulletin,* November, 1917, p. 880.

147. Rediscount of Participation Certificate.

There is no provision in the Federal Reserve Act which authorizes a Federal Reserve Bank to rediscount a certificate of participation in a note, because even though the original note is eligible for rediscount, a participation certificate nevertheless is nothing more than the evidence of an equitable interest in that original note, and does not in any way represent a legal claim against the maker of the note. *Bulletin,* December, 1917, p. 949.

148. Public-Service Corporation Paper.

Notes given in payment of material or supplies which are necessary to enable the public-service corporation to furnish goods (light, heat, or power) which it sells the public, and for which the public will pay at the end of 30 or 60 day periods, might be regarded as eligible, provided the statement of the corporation shows a satisfactory proportion of cash and accounts receivable against current liabilities. *Bulletin,* December, 1917, p. 949.

149. Notes of Finance or Credit Companies.

The note of a finance or credit company which is drawn either directly or indirectly to finance some industrial or commercial concern in the transaction of its business is not eligible for rediscount, even though it may be secured by paper which is itself eligible for rediscount. *Bulletin,* March, 1918, p. 197.

150. Live-Stock Paper.

The bill or note of a packing company, the proceeds of which are used for the purchase of live stock which is slaughtered upon purchase, is not "based on live stock" within the meaning of section 13, and is, therefore, not eligible for rediscount if it has a maturity in excess of 90 days. *Bulletin,* August, 1917, p. 616.

151. Paper Secured by Chattel Mortgage.

Any member bank could discount a promissory note secured by collateral notes, in turn secured by chattel mortgages on cattle. Such a note, however, would not be eligible for rediscount by a Federal Reserve Bank because of the fact that it is not drawn for an agricultural, industrial or commercial purpose, within the meaning of section 13, of the Federal Reserve Act. *Bulletin,* September, 1917, p. 690.

152. Notes of Farmers for Commodities Used in Farming.

Where a farmer makes his note payable to the seller of a commodity and actually uses the commodity for agricultural purposes, such a note may be treated as agricultural paper, whether discounted with the member bank by the farmer as the maker or by the seller as the indorser. *Bulletin,* April, 1918, p. 310.

153. Tractor Work.

Where tractors are used to supplement the work of horses or mules or are used altogether instead of these animals, notes given by farmers for the purchase price of tractors, and maturing within six months, should be admitted to discount as agricultural paper. *Bulletin,* April, 1918, p. 309.

154. Cattle as Readily Marketable Commodity.

National banks are not authorized to accept bills secured by chattel mortgages on cattle, and Federal Reserve Banks should consider as ineligible bills drawn against the security of such chattel mortgages, whether accepted by member or nonmember banks. *Bulletin,* April, 1918, p. 309.

155. Commodities Used for Agricultural Purposes—Note for Purchase Price.

A note given for the purchase price of a commodity can be classed as agricultural paper eligible for rediscount when having a maturity in excess of 90 days, if the maker is to use the commodity for an agricultural purpose, regardless of whether the note is discounted by the maker or by the indorser. *Bulletin,* April, 1918, p. 312.

156. Stamp Tax on Acceptances.

Acceptances originating outside but payable inside this country as well as acceptances originating inside but payable outside are subject to stamp taxes. *Bulletin,* December, 1917, p. 950.

157. Acceptances by Member Banks of Drafts Drawn by Dealers Engaged in the Export and Domestic Sale of the Same Character and Class of Goods.

Where a dealer who is engaged in the purchase of the same character and class of goods for export and for domestic use desires to finance the purchase and sale of goods to be exported, his agreement with a member bank accepting such drafts should

show that he has a contract for the export of the goods; that the total amount of drafts drawn under such credit will not exceed the aggregate amount involved in the export transaction; that the proceeds of the drafts are to be used in connection with the export transaction; and that the proceeds of the sale of the goods exported will be applied in payment of the acceptances unless the dealer has in the meantime placed the bank in funds to meet them at maturity, or has secured such acceptances in the manner required of domestic acceptances. April 1, 1918.

158. Chattel Mortgages on Cattle.

"May arrangements be made for banks to accept or make acceptances based on chattel mortgages, or so-called cattle loans, with the agreement to renew these acceptances for 90 days two or three times?"

I am instructed to advise you that in the opinion of the Board national banks are not authorized by law to accept drafts or bills that are secured by chattel mortgages on cattle. The Board's counsel says:

"Under the terms of section 13 of the Federal Reserve Act national banks are permitted to accept drafts in a domestic transaction only when shipping documents conveying or securing title are attached at the time of acceptance, or when such drafts are secured at the time of acceptance by warehouse receipt or other such document conveying or securing title covering readily marketable staples. In the case under consideration no shipping documents are attached, and in the opinion of this office a chattel mortgage on cattle is not a document similar to a warehouse receipt conveying or securing title to readily marketable staples. In the case of a chattel mortgage the borrower retains possession of the goods and merely vests the legal title as security for the debt." March 25, 1918.

159. Trade Acceptances in Connection with Sales on Installment Plan.

Referring further to your letter of March 21, inclosing a copy of a letter from ———, in which they inquire about the use of trade acceptances in connection with the sale of coffee mills, etc., on an installment plan, I am instructed to say that the counsel of the Board reports as follows:

"If the purchaser is willing to accept the draft in advance of the delivery of the goods, there would seem to be no reason

why such an acceptance should not be treated on the same basis as a bill drawn and accepted after delivery of such goods."

A memorandum presented to the Board on the same subject contains the following paragraph, which is herewith transmitted to you as the expression of the Board's views on this question.

"After the machines have been made and delivered to the customer, and after the seller has been notified by the customer of the delivery, then the seller fills in his name on the acceptances as drawer, and also fills in the date of maturity, . . . the total installment acceptances amounting to the agreed price. None of these acceptances could be negotiated, nor in fact is an acceptance at all until after the machine has been delivered and accepted by the purchaser. It would seem . . . that this is clearly a case of a trade acceptance and should be entitled to preferential rates as such." April 15, 1918.

160. Gas Sold by Distributing Company.

The question presented for determination is whether natural gas actually sold and delivered by a distributing company is "goods sold" within the meaning of the Federal Reserve Board's regulations defining a trade acceptance. The Board is of the opinion that an acceptance drawn by a gas-producing company on a gas-distributing company, and accepted by the latter in payment for the gas sold and delivered is a trade acceptance, and that it is eligible for rediscount by a Federal Reserve Bank, provided, of course, it also conforms to the other requirements of the Board's regulations. April 23, 1918.

161. Allied Purchasing Commission.

It appears from this letter that the ——— certifies that a draft drawn by it against the ——— was drawn for the purpose of financing the sale to the Allied Purchasing Commissions of packing-house products contracted for export to Europe. You ask whether this can be treated as a banker's acceptance against goods for export. It is assumed that the firm of ——— has no contract to export and that its transaction is completed when its sale is made to the Allied Purchasing Commission.

This case appears to be covered by opinion of counsel approved by the Board and published in the September, 1915, issue of the *Federal Reserve Bulletin*, page 276, volume 1.

In each of the cases submitted by you it appears that the contract between the seller of the goods who draws the draft and

the purchaser is entirely independent of the contract for the export of the goods. This being true, the draft would have to be treated as drawn in a domestic transaction, and the drafts should be accompanied by shipping documents or secured by warehouse receipts or other similar documents conveying and securing title when accepted by the drawee bank.

A different situation would, of course, be presented if the drawee bank accepted the drafts at the instance of the purchaser of the goods, the purchaser having a contract to export such goods. In such case, the drafts would grow out of a transaction involving the export of the goods and could be accepted by the drawee bank under authority of section 13 of the Federal Reserve Act. April 10, 1918.

162. Acceptance by Member Banks of Drafts Drawn in Transactions Involving Export of Goods.

A dealer having drawn drafts accepted by a member bank in an export transaction should be given the option, with the consent of the accepting bank, to secure such drafts in the manner required of those drawn in domestic transactions if he wishes to use the proceeds derived from the sale of the goods exported for purposes other than the payment of such acceptances.

It appears from your letter that the Bank of ——— is not a member bank. You ask whether this fact would alter the ruling of the Federal Reserve Board contained in letter to you dated April 24.

In reply you are advised that in the opinion of the Board the limitations contained in section 13 of the Federal Reserve Act on the rediscount of paper bearing the signature or indorsement of any one borrower should not be held to refer to the indorsement of a nonmember bank on paper rediscounted with a member bank.

It is true that in such case the nonmember bank is contingently liable if the paper is not paid at maturity, but the Board is inclined to the view that this language refers to paper bearing the signature or indorsement of borrowers or customers of the member bank and not to the indorsement of other banks. A nonmember bank could not, of course, obtain indirect accommodation from the Federal Reserve Bank through the medium or agency of a member bank except with the permission of the Federal Reserve Board, but if a member bank had acquired eligible paper in due course by rediscount from a nonmember

bank the member bank should hardly be precluded from rediscounting this paper with the Federal Reserve Bank because it bears the indorsement of the nonmember bank.

The fact that this inquiry is submitted by the Bank of ———, a nonmember bank, may indicate a desire on its part to obtain accommodation from the Federal Reserve Bank through one of its correspondent member banks. This being true, it may be well to call its attention to the fact that if this is its purpose, it will be necessary to obtain the consent of the Federal Reserve Board. May 1, 1918.

163. Acceptance of Drafts Against Sugar in Bond.

It is the understanding of this office that sugar referred to is placed in bond under transit entry and warehouse receipt issued by collector in negotiable form, but sugar can not be withdrawn for domestic sale or consumption without special permission of Treasury Department. Board is of opinion that member banks may legally accept drafts drawn against security of such warehouse receipt properly assigned. May 7, 1918.

164. Bills Payable Elsewhere Than in the United States.

You are advised that under the regulations of the Federal Reserve Board defining bankers' acceptances, any bill which is payable elsewhere than in the United States would not be eligible for purchase as a bankers' acceptance, under the provisions of regulations A and B, series of 1917, even though eligible in all other respects.

The acceptance to which you refer, however, might properly be purchased as a bill of exchange payable in a foreign country in accordance with the provisions of Special Instructions No. 2 of 1916, subsection (b), printed on page 529 and 530 of the October, 1916, *Bulletin*, May 11, 1918.

165. Discount of Acceptances Paid Elsewhere Than at Federal Reserve Bank.

The discount committee of the Federal Reserve Bank has reported that, in its opinion, "Federal Reserve Banks should insist that acceptances when due should be paid by checks on the local Federal Reserve Bank, in order that they may be charged to the account of the acceptor on the day of maturity, or else that acceptances should be paid by checks through the clearings. If an arrangement on these lines can not be perfected, Federal Reserve Banks ought to be required to add one day to the actual

number of days the acceptance has to run when bought, so as to make up for the loss of interest incurred in collecting in this manner."

This report has been agreed to by the Board, and your bank is requested, in buying acceptances, to charge discount for one additional day, except in cases where satisfactory arrangements are made to make actual cash payment at the Federal Reserve Bank on the day of maturity. May 7, 1918.

166. Warehouse Receipts for Canned Goods as Security.

It appears that a certain concern engaged in the canned goods business proposes to set aside part of its readily marketable goods and materials not necessary for immediate purposes and to place them in storage with a lessee of part of its premises. The lessee is then to issue warehouse receipts to the owners of the goods, which receipts are to be used as security for drafts drawn against the member bank and accepted by that bank under authority of section 13 of the Federal Reserve Act.

You desire to be informed whether such a plan would in the opinion of the Federal Reserve Board meet with the requirements of the statute.

In reply, you are advised that if the premises in question are actually turned over to the lessee under a *bona fide* lease, the lessee being independent of the borrower and having entire custody and control of the goods, there would seem to be no objection to a member bank accepting drafts drawn against the security of warehouse receipts issued by such lessee. It should, however, be expressly understood and agreed that the borrower shall not have access to the premises except with the permission of the lessee and that he shall exercise no control of any sort over the goods against which warehouse receipts are issued. The warehouse receipt must, of course, be in form to properly convey and secure title to the bank. June 10, 1918.

167. Rate on Paper of Acceptance Corporation.

My own feeling in the matter is that acceptances of this corporation ought to be dealt with exactly as would be the acceptances of a prime private banker. These acceptance corporations are in the same relation to the Federal Reserve system as the private bankers. They can not become members, but, inasmuch as they expect to give you full information about their own financial standing and the nature of their acceptances, and as

they exercise a most important function for the further development of our acceptance business and discount market, their operation ought to be encouraged in every respect.

I do not think, therefore, that it would be proper to discriminate against their acceptances when they reach you properly indorsed by a bank or banker. If they should be offered to you without any indorsement, then indeed, I would discriminate against them—at least at the extent of one-fourth per cent in the discount rate, if not more.

As you know, I am very anxious to see adopted in growing measure the habit of Federal Reserve Banks to insist upon the third signature for all the acceptances that they buy.

P.S.—Since dictating the above, I have had an opportunity of discussing this letter with the members of the Board, and they are in accord with the sentiments that I have expressed. It is, of course, understood that the acceptance corporation will publish its reports and that you will keep yourself fully advised as to its assets and obligations. That will, of course, guide your board of directors in its judgment as to how large an amount of these acceptances it will be willing to take from time to time. May 31, 1918.

168. Releasing Documents.

In reply you are advised that inasmuch as the statute merely requires the accepting bank to be secured in domestic transactions by shipping documents or warehouse receipts at the time of acceptance the bank would no doubt have the right, if it became necessary to do so, to release either the shipping document or the warehouse receipt, provided the draft or drafts accepted for one person did not exceed 10 per cent of the capital and surplus of the accepting bank. This is a question, however, which should be determined by the bank itself.

It is no doubt necessary in some instances for the bank to release the shipping documents under some agreement with its customer in order that the transaction may be consummated. There would seem to be much less reason for releasing the warehouse receipts, and the banks might very properly adopt the rule not to release warehouse receipts other than in exceptional cases. In any event, this is purely a matter of agreement as between the bank and its customers. The Federal Reserve Bank in rediscounting such acceptances may reasonably take into consideration the question whether or not they are secured or

unsecured at the time they are offered for rediscount. May 31, 1918. See also Regulation A, Series of 1920, Section B (b) (3).

169. Receipt of Custodian of Wool as Warehouse Receipt.

Receipt is acknowledged of your letter of the 31st ultimo, and I have to-day wired you as follows, which I now confirm:

Your letter 31st. It being understood that wool is stored in buildings under control of custodian entirely independent of borrower, custodian's certificate or receipt, if issued in proper form to convey or secure title, may be treated as a warehouse receipt within the meaning of section 13 of the Federal Reserve Act, and acceptance of member bank under such conditions would be eligible for rediscount. June 3, 1918.

In reply, you are advised that if the premises in question are actually turned over to the lessee under a bona fide lease, the lessee being independent of the borrower and having entire custody and control of the goods, there would seem to be no objection to a member bank accepting drafts drawn against the security of warehouse receipts issued by such lessee. It should, however, be expressly understood and agreed that the borrower shall not have access to the premises except with the permission of the lessee and that he shall exercise no control of any sort over the goods against which warehouse receipts are issued. The warehouse receipt must, of course, be in form to properly convey and secure title to the bank. June 10, 1918.

170. Form of Trade Acceptance.

Various clients of ours send their trade acceptances to all States of the Union and wish to have them so worded that it would be proper for a bank in any State, including the State where the negotiable-instrument law has not been enacted or it has been modified, to pay the acceptance without previously notifying the acceptor.

Will you advise me, in your opinion, if the wording in either form of indorsement, as noted below, should be sufficient warrant for the bank to pay the acceptance from funds of the acceptor in their hands without notification to the acceptor?

Do you see any advantage in one form over the other, or can you suggest any improvement in the forms as given?

[*Form 1.*]

Accepted at...,191
Bank where payable...
(Without further notice to acceptor)
Address of bank...
(If no bank, address of acceptor)
Name...
(Acceptor's authorized signature)
By...

[*Form 2.*]

Accepted at...,191
Bank where payable...
(If no bank, address of acceptor)
Address...
(Pay as specified, charge to the account of)
Name...
(Acceptor's authorized signature)
By...

June 5, 1918.

Receipt is acknowledged of your letter of the 5th instant outlining two forms of trade acceptances and requesting an expression of the Board's preference. The matter was referred to counsel, and the Board concurs with his opinion that Form 2 would seem to be the most desirable, since it contains a specific request to pay the draft, instead of a mere implied request or waiver of further notice. June 25, 1918.

171. Paper Covering Sale of Agricultural Implements.

You ask whether the six months' maturity privilege as applied to agricultural paper applies to any sales that a manufacturer of agricultural implements might sell to a dealer for resale by him to a farmer.

In reply you are advised that under the rulings of the Board such paper would have to be treated as commercial and not as agricultural paper and could not be rediscounted with a Federal Reserve Bank if it had a maturity of more than 90 days. September 26, 1918.

172. Acceptance of Drafts by State Bank Members.

In reference to the condition attached to your membership in the Federal Reserve System to the effect "that in no event shall the aggregate amount of domestic acceptances outstanding at one time exceed 50 per cent of the capital and surplus of the bank."

This condition relates to drafts or bills drawn against your bank in domestic transactions and accepted by your bank. It does not relate to drafts drawn by an individual against some other drawee which are accepted by the drawee and discounted by you.

The Federal Reserve Board is without authority to permit a member bank to accept drafts drawn against it in domestic transactions in excess of 50 per cent of the capital and surplus of the accepting bank. It may authorize a member bank to accept drafts up to 100 per cent, which amount may include both those which grow out of transactions involving the exportation or importation of goods and those which grow out of domestic transactions; but the statute limits specifically the amount that may be accepted in domestic transactions to 50 per cent of the capital and surplus of the accepting bank. October 5, 1918.

173. Draft Drawn for Purpose of Creating Dollar Exchange.

Permission granted to a member bank with respect to any country entitles it to exercise similar accepting powers with respect to all countries that have been or may hereafter be designated by the Board as countries whose usages of trade require the furnishing of dollar exchange.

174. Revenue Stamps on Drafts Drawn to Finance Sales of Goods to Allied Purchasing Commission.

(To Federal Reserve Banks.)

The Board's attention has been called to the fact that in some districts banks are requiring revenue stamps to be affixed to drafts drawn to finance sales of goods to the Allied Purchasing Commission, while in others this requirement is not enforced by the banks.

It is, of course, desirable that the practice should be uniform. Attention is, therefore, called to the ruling of the Commissioner of Internal Revenue, published on page 614 of the July, 1918, *Bulletin,* which reads as follows:

Referring to your letter of June 5 and my acknowledgment of June 10, it seems from Mr. Curtis's letter that under credit agreements conforming with the regulations of the Federal Reserve Board packers may draw bills of exchange on domestic banks against sales of goods to the Allied Purchasing Commission, such bills running for a period of time covering approximately the

transit of the shipment from the interior point to the seaboard, where the goods are taken on board ship for the ocean voyage at the convenience of the Allied Purchasing Commission.

In Wm. E. Peck & Co. (Inc.) *v.* Lowe, decided in the United States Supreme Court May 20, 1918, which held that the income tax of 1913 was valid as applied to net income derived from sales in foreign commerce, the court has occasion to discuss the effect of the constitutional prohibition against taxing articles exported, and it referred to and distinguished certain of its former decisions on the subject. It concluded that when the tax is not laid on the articles themselves while in course of exportation the true test of its validity is whether it so directly and closely bears on the process of exporting as to be in substance a tax on the exportation. In the present circumstances it can probably fairly be said that the tax on the drafts, although they are to be paid before the actual ocean voyage begins, bears so directly and closely on the process of exporting as to be in substance a tax on it. The goods are doubtless "in course of exportation" from the time the first carrier receives them.

The same principle would seem to apply as in the case of the transportation tax. In article 31 of Regulations No. 42 rules for determining when property may be deemed to be in the course of exportation are laid down, and apparently the present situation is within their scope.

It is accordingly held that the stamp tax imposed by subdivision 6 of schedule A of Title VIII of the act of October 3, 1917, does not attach to drafts on domestic banks in connection with the shipment of articles from the interior to the seaboard, where such articles have been sold to the United States agent of a foreign purchaser for export under circumstances entitling the transportation within the United States to exemption from the transportation tax. September 16, 1918.

175. Shipping Documents Held by Bank.

Your letter of the 7th instant was duly received and the question raised was referred to counsel, with whom the Board agrees in the opinion that "it is entirely consistent with the purposes of the act and a sufficient compliance with its terms if shipping documents are in the possession of the bank and the bank has a lien on the property represented by such documents at the time that such bill is accepted. If placed in the possession of the bank's agent and under the control of the bank such docu-

ments could clearly be considered as in the possession of the bank. . . . There would seem to be no greater reason for requiring shipping documents or warehouse receipts to be physically attached or fastened to the bill than there is for requiring other documents securing such bill to be attached or fastened." Care should, however, be taken that the documents be held for account of the accepting bank by a third party who is in no way interested in the acceptance transaction. A trust receipt of the party for whom the acceptance is made would not be looked upon with favor by the Board. September 19, 1917.

176. Eligibility of Drafts Drawn Under Credits.

Drafts drawn under the credit opened by certain banks to finance the Cuban sugar crop are eligible for rediscount with a Federal Reserve Bank when accepted by the bank against which they are drawn. In this case the sugar in question was sold to the United States Equalization Board for shipment to the United States or United Kingdom under contract entered into between the purchasers and the Equalization Board through the agents of the former in New York. January, 1919.

177. Trade Acceptances.

A trade acceptance containing the statement that "the obligation of the acceptor hereof arises out of the purchase of goods from the drawer as per invoices, a record of which is given in the subjoined statement," is a valid and desirable acceptance when offered with the "subjoined statement" detached in accordance with directions in the form.

An acceptance to pay at a particular place different from the residence of the acceptor is a general acceptance, unless it expressly states that the bill is to be paid there and not elsewhere, and does not render the bill non-negotiable.

The following is the opinion of the counsel:

December 20, 1918.

An opinion is asked on the following questions:

1. Whether a trade acceptance containing the statement that "the obligation of the acceptor hereof arises out of the purchase of goods from the drawer as per invoices, a record of which is given in the subjoined statement," is a valid and desirable acceptance when offered with the "subjoined statement" detached in accordance with the directions in the form?

2. Should a bank or bill house have any hesitancy now, in view of the variant legal rulings or decisions, in purchasing a bill payable in New York drawn on a firm in Cleveland, without the language suggested by the trade-acceptance council to cover this point?

Considering these questions in the foregoing order, (1) Section 3 of the negotiable instruments law provides in part as follows:

"An unqualified order or promise to pay is unconditional within the meaning of this act, though coupled with . . . a statement of the transaction which gives rise to the instrument."

In accordance with this section, it has been held that the words "as per terms of contract," written after the words "value received" on the face of a promissory note by the maker before it is delivered, do not destroy the negotiability of the note or make its payment to a holder in due course conditional upon the performance of the contract intended to be referred to by the maker. (National Bank of Newbury *v.* Wentworth, 218 Mass., 30, cited with approval in Crawford's Annotated Negotiable Instruments Law, p. 18.)

By analogy, the "subjoined statement" referred to in the case under consideration may be treated as a part of the statement of the transaction giving rise to the draft. Such a statement, under the better authorities, is not an essential part of the draft, and to detach it should not, therefore, destroy its negotiability. It could not be treated as an unauthorized alteration of the acceptance, because the order of the drawer in the form submitted contains specific authority to "detach this memorandum from the trade acceptance before discounting or depositing it for collection." The drawee, therefore, assents to the order of the drawer, and in the opinion of this office such an acceptance may be treated as negotiable.

The Board has heretofore approved a form of trade acceptance containing the statement that it is drawn "in settlement of the purchase of goods as billed in our invoice No. ——, dated ——." (See *Federal Reserve Bulletin,* May, 1917, p. 378.)

The same general principles seem to be involved in the present case.

In answer to question (2), this office, in an opinion published in the April (1917) *Federal Reserve Bulletin,* page 289, reached

the conclusion that an acceptance to pay at a particular place different from that named in the draft is a general and not a qualified acceptance unless the acceptor expressly states that the bill will be paid at the place designated by him and not elsewhere.

As some counsel expressed some uncertainty as to the correctness of this view, the trade-acceptance council recommended that the drawer incorporate in the body of the draft authority for the drawee to make such an acceptance. This would, of course, remove any doubt that may exist on the subject, but after further considering the question involved I am still of the opinion that even without this authority incorporated in the draft the drawee might accept a draft as above outlined without destroying the negotiability of the instrument. December 23, 1918.

178. Section 13—Acceptances in Excess of 10 Per Cent.

A bank having a capital and surplus of $2,000,000 desires to accept drafts drawn by third parties aggregating more than $200,000 under the guarantee of one of its customers.

Would the acceptance of such drafts constitute a violation of that provision of section 13 of the Federal Reserve Act which provides that—

"No member bank shall accept, whether in a foreign or domestic transaction, for any one person, company, firm, or corporation to an amount equal at any time in the aggregate to more than ten per centum of its paid-up and unimpaired capital stock and surplus, unless the bank is secured either by attached documents or by some other actual security growing out of the same transaction as the acceptance."

This section prohibits a member bank from accepting for any one person, drafts aggregating more than 10 per cent of the capital and surplus. The person who enters into an agreement with the bank to protect it against loss and to whom the bank lends its credit in the form of an acceptance, is obviously the persons referred to in the statute.

Accordingly in the case presented, unless the drafts are secured as provided by the statute, the acceptance of an amount in excess of 10 per cent of the capital and surplus of the bank, would constitute a violation of this provision whether or not the cus-

tomer of the bank guaranteeing the acceptance is the drawer of the draft, or some other person.

January 7, 1919.

179. Acceptances in Excess of 10 Per Cent.

A member bank may accept either in a domestic or foreign transaction for one person in an amount in excess of 10 per cent, provided the acceptance remains secured throughout the life of the draft. It can not accept in domestic transactions without being secured at the time of acceptance, but may release the security after acceptance upon the execution of a trust receipt or an agreement by the customer that so much of the proceeds of the sale of the goods covered by the security as may be necessary to pay the draft will be deposited with the accepting bank when available and will not be used for other purposes.

180. Domestic Acceptances—Security and Limitations.

Although section 13 of the Federal Reserve Act authorizes member banks to accept drafts drawn in domestic transactions only when secured at the time of acceptance by attached shipping documents or warehouse receipts or other such documents, nevertheless the security may properly be released after acceptance; provided, however, that in any case where the total amount accepted for any one customer exceeds 10 per cent of the capital and surplus of the accepting bank the security can not be released unless some other actual security growing out of the same transaction is substituted therefor. A trust receipt which permits the customer for whom the draft is accepted to obtain control of the goods is not actual security for the purposes of this section of the law.

Although the Federal Reserve Banks legally may rediscount any draft which section 13 authorizes a member bank to accept, nevertheless such reserve banks are not required by law to rediscount every such acceptance tendered to them for that purpose, whether or not it is secured at the time it is presented for rediscount.

181. Bankers' Acceptances Against Open Accounts of Foreign Purchasers.

National banks can not accept drafts for the purpose of enabling domestic concerns to extend credits on open account to foreign purchasers.

"We should like to have your opinion and advice as to a cer-

tain method of financing export business, which has been proposed to us by one of our good customers, who are of unquestioned standing.

"The company in question finds that competition, particularly with European sellers, is compelling them to refrain from drawing drafts, either sight or time, against shipments to certain big buyers abroad. These buyers insist on having goods sent to them on open account, and as the terms are frequently as long as 90 days, or even 4 months, it means that for a South American shipment a delay of 6 or 7 months can easily elapse from time of shipment from New York to receipt of proceeds in New York, even when the bill is paid without extension of original terms. To help him finance such a class of business, he proposes that at regular intervals (to illustrate, once a week) he will exhibit duplicate invoices and duplicate documents, showing shipments actually made during the past week, and ask us to accept his time draft on us, for 90 days, with privilege of one or two renewals, if necessary, to aid him in carrying the load on these exports until returns are received."

The question to be determined is whether drafts drawn under the foregoing circumstances may be treated as growing out of a transaction involving the importation or exportation of goods?

Although it is clear that there has been an exportation of goods, it does not appear that the drafts in question can be said to have grown out of the transaction which involved the exportation, within the meaning of the act.

As previously pointed out the language used in the act is broad enough to vest in the Board a wide discretion to determine how remotely or how directly the drafts drawn must be connected with the transaction involving the exportation. Considering the general purposes of the act, however, it is clearly contemplated that these credits were to be opened for the purpose of facilitating international commerce; that is to say, to enable the parties to the transaction actually to export and sell the goods. It was hardly the intention of Congress to authorize member banks to exercise this power for the purpose of enabling domestic concerns to extend credits on open account to foreign purchasers. In the opinion of this office the approval of this credit would require a forced construction of the provisions of section 13 of the Federal Reserve Act. January 28, 1919.

182. Domestic Acceptances—Security and Limitations.

It appears that some confusion of thought exists in the minds of certain officers of Federal Reserve Banks and member banks as to the Board's interpretation of those provisions of section 13 of the Federal Reserve Act which relate (1) to the power of member banks to accept drafts drawn in domestic transactions; (2) to the eligibility for rediscount by Federal Reserve Banks of member bank acceptances.

It is understood that the provisions in question have been interpreted by the Board in various rulings, as follows:

POWER OF MEMBER BANKS TO ACCEPT DRAFTS DRAWN IN DOMESTIC TRANSACTIONS

Subject to the limitations prescribed by the Act, member banks are authorized—

(*a*) To accept drafts or bills of exchange which grow out of transactions involving the domestic shipment of goods, provided shipping documents conveying or securing title are attached *at the time of acceptance.*

(*b*) To accept drafts or bills of exchange which are secured at the *time of acceptance* by warehouse receipts or other such documents conveying or securing title covering readily marketable staples.

All drafts accepted in domestic transactions must therefore be secured at the time of acceptance either by shipping documents or warehouse receipts or other such documents, as specified in the law. If the aggregate amount of drafts accepted for one person, firm, or corporation exceeds a sum equal to 10 per cent of the capital and surplus of the accepting bank, such drafts, whether in a foreign or domestic transaction, must remain secured throughout the life of the draft since the Act provides that:

"No member bank shall accept, whether in a foreign or domestic transaction, for any one person, . . . to an amount equal at any time in the aggregate to more than 10 per centum of its paid-up and unimpaired capital stock and surplus, unless the bank is secured either by attached documents or by some other actual security growing out of the same transaction as the acceptance."

183. Security Covering Acceptances in Excess of 10 Per Cent Limitation of Section 13.

Under the provisions of section 13 a member bank may accept for any one customer in excess of 10 per cent of its capital and

surplus, provided it is secured by attached documents or by some other actual security growing out of the same transaction as to all acceptances in excess of the 10 per cent limitation.

[See opinion of General Counsel in Law Department, p. 364.]

184. Stamp Tax on Drafts Drawn Against Shipments from the United States.

Because of the constitutional restriction against taxes on exports, drafts which are drawn against shipments from the territorial United States, including the District of Columbia, Hawaii, and Alaska, to foreign countries are not subject to stamp tax under provisions of the 1918 Revenue Act, even though accepted or delivered or both accepted and delivered within the United States. Shipments from the territorial United States to the Canal Zone, Virgin Islands, Porto Rico, and the Philippines are not considered shipments to foreign countries, but drafts against shipments to Porto Rico, the Virgin Islands, and the Philippines are exempt from stamp tax by express legislation even though such shipments are not considered shipments to foreign countries.

185. Substitution of Security for Acceptances in Excess of 10 Per Cent Limit.

Section 13 of the Federal Reserve Act provides that no member bank shall accept, whether in a foreign or domestic transaction, for any one person, company, firm, or corporation to an amount in excess of 10 per cent of its capital and surplus, unless the bank is secured either by attached documents or by some other actual security flowing out of the same transaction as the acceptances. The question often arises as to whether or not documents issued under the following circumstances constitute some other actual security within the meaning of this section.

A corporation ships goods consigned to its own agent; it draws a time draft on its own bank with the bills of lading attached; the bank accepts, the acceptance being in excess of 10 per cent of its capital and surplus. The question is whether the bills of lading may be released by the bank to the agent who is the consignee, provided that the agent substitutes therefor other drafts secured by bills of lading covering the same goods which were being shipped by the agent to various dealers. The Board is of the opinion that the new drafts, secured by bills of lading covering the same goods, do constitute some other actual security within the meaning of section 13, and that the accepting bank may properly release the original bills in favor of these other drafts,

even though the aggregate of acceptances for the same customer exceeds 10 per cent of its capital and surplus.

Generally speaking, the bill of lading drafts substituted for the original bills of lading are drafts drawn on certain dealers and presented to the accepting bank for collection, the proceeds to be applied to the payment of the original acceptance. The Board believes that this security is not only an actual security within the meaning of the act, but also that it grows out of the same transaction as the original acceptance and that, therefore, the substitution may properly be made.

186. Trade Acceptances Covering Building Operations.

The Federal Reserve Board has received many inquiries with reference to the right of the various parties concerned in building contracts to draw trade acceptances against each other for the purpose of financing the different steps in the process of building.

The Board finds it difficult, if not impossible, to answer any general hypothetical question with reference to this subject because of the fact that the elements necessary to determine the eligibility of trade acceptances depend largely not only upon the general nature of the business which they finance, but upon the technical terms of the contract covering the particular transaction out of which they grow. There does not seem to be any doubt that a draft drawn by a manufacturer or material man upon a builder to cover the cost of materials sold to the builder is eligible for rediscount as a trade acceptance when accepted by the builder, for that comes clearly within the terms of the Board's definition of such an instrument. It is equally clear, however, that if the nature of the contract under which the building operations are being conducted is such that the contractor, for instance, does not get title either to the materials furnished or to the building as it is being erected, he can not properly make a trade acceptance of a draft drawn upon him by the subcontractor or builder, it being apparent that he has not been the purchaser of goods sold within the meaning of the Board's regulations.

Building contracts vary so greatly in different localities and are always so intricate in their nature that it is impossible to promulgate any general ruling as to the possibility of the use of the trade acceptance to finance structural work and other building operations in general. Each case would have to be determined upon the facts as ascertained in the light of the contract under which the operations are being conducted.

If the drawer of the draft has sold "goods" to the drawee, the drawee may properly accept, and the draft thus accepted would constitute a trade acceptance if otherwise in conformity with the Board's regulations, but it should be noted that labor in itself is not considered "goods" within the meaning of these regulations. The Board has ruled, however, that a draft drawn to cover the purchase price of goods sold, plus the cost of installing those goods, may be eligible for acceptance as a trade acceptance. (See *Federal Reserve Bulletin* of April, 1918, p. 310.) At this time, however, the Board is not inclined to extend the scope of its definition of the word "goods" to include labor alone.

It should be understood, of course, that nothing in this ruling should be construed to imply that a note or bill of exchange, the proceeds of which have been used or are to be used for the payment of wages or for services rendered, is not eligible for rediscount. It is merely intended to indicate that in order to constitute a certain preferred class of eligible bills of exchange specifically designated as trade acceptances, the transactions out of which the acceptances grow must be ones involving the sale of "goods" within the meaning of the Board's regulations.

This ruling is issued with the understanding that trade acceptances should not be used so as to extend the usual and customary terms of credit.

187. Sight Drafts Accepted Payable at a Future Date.

A sight draft which is accepted by the drawee, payable at a future date, is a qualified acceptance which the holder may refuse to take, but if such an acceptance is taken by the holder the drawer and indorsers are released unless they have either expressly or impliedly authorized the holder to take a qualified acceptance or unless they subsequently assent thereto.

188. Definition of "Readily Marketable Staples."

Printed below is a definition of the term "readily marketable staples" as used in that part of Section 13 of the Federal Reserve Act which authorizes any member bank to accept drafts which are secured at the time of acceptance by a warehouse receipt or other such document conveying or securing title covering "readily marketable staples."

The Board has issued this definition as a guide to Federal Reserve Banks and member banks in determining what staples may properly be considered readily marketable within the mean-

ing of that section and suggests that although the law does not expressly restrict eligible staples to those which are nonperishable nevertheless banks as a matter of prudence and protection to themselves should not consider as eligible any staple which is in its nature so perishable as not to be reasonably sure of maintaining its value as security at least for the life of the draft which is drawn against it.

DEFINITION

A readily marketable staple may be defined as an article of commerce, agriculture, or industry of such uses as to make it the subject of constant dealings in ready markets with such frequent quotations of prices as to make (*a*) the price easily and definitely ascertainable and (*b*) the staple itself easy to realize upon by sale at any time.

189. Renewal Acceptances.

The Federal Reserve Board fully realizes that conditions abroad are still far from normal and that allowance for this fact must be made in estimating the duration of any transaction involving the exportation of goods on account of which an original draft is drawn, and consideration will be given to these abnormal conditions by the Board in ruling upon the eligibility of renewal drafts.

It is clear, however, that no renewal draft can be held to be eligible if at the time of its acceptance the period required for the conclusion of the transaction out of which the original draft was drawn shall have elapsed. In cases where it is practicable at the time the original draft is drawn to foretell with substantial certainty the conditions which will exist at the time the renewal draft is to be drawn, the Board may be able to rule in advance as to the eligibility of such renewal drafts; but in cases where it is not possible, the question of the eligibility of renewal drafts must necessarily depend upon the stage of the transaction that may have been reached when such renewal drafts are drawn.

In cases where transactions have been fully concluded but where the vendor in this country deems it inadvisable, or his customer abroad finds it inexpedient to remit the proceeds of the sale, owing to adverse exchange rate or to other circumstances, it would follow that to permit the renewal of bills based on such a state of facts would be to render eligible bills which in their nature are merely finance bills.

After four years of war many industries abroad require not only current commercial accommodation but also what is in effect replenishment of permanent working capital, and efforts to replenish permanent working capital by means of bills which are in form self-liquidating but which actually represent in substance a permanent investment, can not be encouraged by the Federal Reserve Board. Any parties interested in transactions of this kind should finance themselves through the investment market.

Subject to the limitations above outlined, the Board is prepared to take full account of the extraordinary conditions now prevailing and to make ruling accordingly.

190. Acceptance of Drafts Secured by Warehouse Receipts.

The Federal Reserve Board is of the opinion that no draft which is secured by a warehouse receipt should properly be considered eligible for acceptance under the terms of section 13 of the Federal Reserve Act unless the goods covered by the warehouse receipt are being held in storage pending a reasonable immediate sale, shipment, or distribution into the process of manufacture. Any draft therefore which is drawn to carry goods for speculative purposes or for any indefinite period of time without the purpose to sell, ship, or manufacture within a reasonable time, should not be considered eligible for acceptance under the provisions of section 13. Such a draft would be merely a cloak to evade the restrictions of section 5200 of the Revised Statutes and is not one of the kinds which Congress intended to make eligible for acceptance.

191. Conditional Sales as the Basis of Trade Acceptances.

An acceptance which provides that the drawer is to retain title to the goods until payment of the acceptance is not consistent with the requirement of a legitimate trade acceptance that the title shall have passed to the drawee at the time of acceptance. The actual sale of goods and not what is generally termed a conditional sale of goods must be the basis of the acceptance.

192. Cotton Factors' Paper.

The Federal Reserve Board has carefully considered the question whether cotton factors' paper may properly be considered eligible for rediscount as commercial paper within the meaning of section 13 of the Federal Reserve Act. In view of the fact that it is apparent from all the evidence on hand that the cir-

cumstances and conditions under which so-called cotton factors' paper is issued vary so much in different cases, it is impossible to give any categorical answer to the question presented, or to make any general ruling that cotton factors' paper, as such, is eligible or ineligible for rediscount.

The Board is clearly of the opinion on the one hand, that paper, the proceeds of which are used to lend to some third party, is finance paper rather than commercial paper and is, in consequence, ineligible for rediscount even though that third party may use the proceeds for a commercial purpose. On the other hand, the Board believes that any paper, the proceeds of which are used to purchase goods to sell to some third party, is eligible for rediscount as commercial paper within the meaning of section 13.

Whether or not a given transaction falls within one class or the other is solely a question of fact for the determination of the directors of the Federal Reserve Bank to which the paper is presented for rediscount. The mere fact that a borrower on a given note is a cotton factor does not of itself render that note ineligible since its eligibility is a matter to be determined by the use to which the proceeds of that particular note are put. If a cotton factor borrows on his own note to increase his capital for the purpose of lending to his customers, the note would come within the first class and would be ineligible, but if it can be determined that the proceeds of the note instead of being loaned to a customer by the factor are used by the factor to purchase goods which are shipped to the customer and which are charged by the factor against the customer's account, then the note attains a commercial status because of the commercial purpose to which its proceeds are applied by the factor.

In order to ascertain the necessary facts it may be proper for a Federal Reserve Bank to require statements or affidavits from the maker of the note as to the exact nature of the transaction out of which it arises. With these principles as a guide, the Federal Reserve Bank must determine the eligibility of any particular paper in the light of the circumstances in which it was issued, and its proceeds disposed of.

193. What a Federal Reserve Bank May Discount for Its Member Banks.

The limitations imposed upon the amounts of rediscounts which a Federal Reserve Bank may make for a member bank, whether State or national, are determined by the provisions of the Federal

Reserve Act and are not in any way affected by the amendment to section 5200.

Under the provisions of section 13 of the Federal Reserve Act any Federal Reserve Bank may rediscount for any member bank, whether State or national, the obligations of any one borrower to the extent of 10 per cent of the member bank's capital and surplus, but it is expressly provided that "bills of exchange drawn against actually existing values" shall not be included in determining that 10 per cent limit.

In the opinion of the Federal Reserve Board this phrase "bills of exchange drawn against actually existing values" includes, among other kinds of paper, "drafts or bills of exchange secured by shipping documents conveying or securing title to goods shipped" and "bankers' acceptances of the kinds described in section 13 of the Federal Reserve Act," even though section 13 (unlike the amendment to section 5200) does not expressly state that those two classes of paper are bills of exchange drawn against actually existing values. In the opinion of the Board, however, accepted demand bills on which the drawer is released from liability are not "bills of exchange" within the meaning of section 13 and must, therefore, be included in determining the limits on the amount of paper of any one borrower which a Federal Reserve Bank may rediscount for any member bank.

Under the terms of section 11 (m), as amended by the act of March 3, 1919, any Federal Reserve Bank may, until December 31, 1920, rediscount for any member bank, whether state or national, the obligations of any one borrower to the extent of 20 per cent of the member bank's capital and surplus, provided, however, that the excess over and above 10 per cent must be secured by bonds or notes of the United States issued since April 24, 1917, or by certificates of indebtedness of the United States.

194. Limitations on the Power to Rediscount for Member State Banks.

The above discussion relates to the general powers of a Federal Reserve Bank to make rediscounts for any member bank, whether State or national. It must be observed, however, that under the terms of section 9 of the Federal Reserve Act no Federal Reserve Bank can rediscount for a member State bank *any* of the paper of any one borrower who is liable to such member State bank in excess of 10 per cent of the capital and surplus of that State bank, but it is provided that the discount of bills of exchange

drawn against actually existing values and the discount of commercial or business paper actually owned by the person negotiating the same shall not be included in determining the amount to which a borrower is liable to such member State bank.

The provisions of section 9 are in no way affected by the amendment to section 5200 of the Revised Statutes, and the same test as to the eligibility of any part of the line of paper of any one borrower which is held by a member State bank is applicable now as before that amendment to section 5200.

Under the provisions of Section 11 (m), as amended by the act of March 3, 1919, the Board has ruled that a Federal Reserve Bank may, until December 31, 1920, rediscount for a member State bank paper secured by not less than a like face amount of bonds or notes of the United States issued since April 24, 1917, or certificates of indebtedness of the United States, without regard to the amount the borrowing bank may already have loaned to its customer under his regular line of credit, provided, however, that the aggregate of all rediscounts of the paper of any one borrower must in no case exceed 20 per cent of the capital and surplus of the member State bank.

In other words, if the regular line of credit of the borrower from a member State bank is *not* more than the 10 per cent limit fixed by section 9 of the Federal Reserve Act, Federal Reserve Banks may rediscount for State member banks to the same extent that they may for member national banks. If, however, the regular line of credit of the borrower from the member State bank is *more* than that 10 per cent limit, then the Federal Reserve Bank can not rediscount any of that regular line of credit, but may rediscount that paper which is secured by Government obligations of the kinds specified up to the limits described above. (See ruling of the Federal Reserve Board printed on pages 361 and 362 of the April, 1919, *Federal Reserve Bulletin*.)

195. Exchange Charges on Member Bank's Own Acceptance.

The question has been presented to the Federal Reserve Board whether a member bank may lawfully make an exchange charge on one of its own acceptances presented to it for collection by the Federal Reserve Bank of its district.

The Federal Reserve Board is of the opinion that a banker's acceptance is a draft within the meaning of that part of section 13 which reads as follows:

That nothing in this or any other section of this act shall be construed as prohibiting a member or nonmember bank from making reasonable charges to be determined and regulated by the Federal Reserve Board, but in no case to exceed 10 cents per $100 or fraction thereof, based on the total of checks and drafts presented at any one time for collection or payment of checks and drafts and remission therefor by exchange or otherwise; but no such charges shall be made against the Federal Reserve Banks.

It is clear, therefore, that a member bank has not authority in law to deduct exchange in accounting to the Federal Reserve Bank for one of its own acceptances forwarded to it for collection by the Federal Reserve Bank.

196. Acceptance of Drafts Drawn by an American Manufacturer for the Purpose of Financing the Purchase of Goods from a Foreign Seller.

The Board has been asked for a ruling as to the right of a member bank to accept drafts drawn under the following circumstances:

An American importer of merchandise receives advices from the foreign seller that he is making a shipment of the goods bought. This advice, which is accompanied by a bill for the goods, usually comes through before the arrival of the bill of lading or the goods themselves. In order to procure funds to pay the bill which accompanied the advice, the importer draws a 90-day draft upon his bank, although at that time the goods sold may be unshipped or lying in a foreign port awaiting shipment, or afloat, or in this country.

The question is whether such a draft is eligible for acceptance under that part of section 13 of the Federal Reserve Act, which permits any member bank to accept drafts drawn upon it "which grow out of transactions involving the importation or exportation of goods."

The Federal Reserve Board has frequently had occasion to rule that a draft drawn by an importer of goods for the purpose of procuring funds with which to pay the foreign seller of those goods is eligible for acceptance by a member bank whether or not the bill of lading covering the goods is attached to the draft and whether or not the goods have actually been shipped by the seller at the time the draft is drawn. In such a case, that is, where there has been an actual sale of goods for export, the draft

which is to procure funds with which to pay for those goods is one which clearly grows out of a transaction involving the importation of goods within the meaning of section 13, and as such is eligible for acceptance by a member bank, provided, of course, that it complies in other respects with the terms of the law and the regulations of the Federal Reserve Board.

This ruling is not intended in any way to apply to the case of a draft drawn by an American manufacturer for the purpose of financing the purchase of goods not from a foreign seller but from an American importer.

197. Eligibility of Drafts Drawn by a Cotton Factor.

The Federal Reserve Board has considered the question whether or not a draft drawn by a cotton factor is eligible for acceptance by a member bank if secured at the time of acceptance by a warehouse receipt covering cotton consigned to the cotton factor for the purpose of sale and, if eligible for acceptance by a member bank, whether it is eligible for rediscount by a Federal Reserve Bank after acceptance.

The Board is of the opinion that any draft drawn under the circumstances described, where it appears that the proceeds are to be used by the factor not for a commercial purpose but rather for the purpose of lending to his customers, is not eligible for acceptance under the terms of section 13 of the Federal Reserve Act and in consequence is not eligible for rediscount by a Federal Reserve Bank as an acceptance.

198. Acceptance of Drafts Secured by Warehouse Receipts Covering Automobiles or Automobile Tires.

Any member bank may accept drafts drawn upon it which are secured at the time of acceptance by warehouse receipts conveying or securing title covering readily marketable staples.

On page 652 of the July, 1919, *Federal Reserve Bulletin,* the Federal Reserve Board has defined a readily marketable staple as follows:

A readily marketable staple may be defined as an article of commerce, agriculture, or industry of such uses as to make it the subject of constant dealings in ready markets with such frequent quotations of prices as to make (a) the price easily and definitely ascertainable and (b) the staple itself easy to realize upon by sale at any time.

The Board has heretofore ruled that an automobile is not a readily marketable staple within the meaning of this definition and that a draft secured by a warehouse receipt covering an automobile is on that account not eligible for acceptance by a member bank. The Board is also of the opinion that automobile tires can not properly be considered readily marketable staples and that a warehouse receipt covering automobile tires, like a warehouse receipt covering an automobile, can not form the basis of an acceptance under the terms of section 13 of the Federal Reserve Act.

This ruling, however, should not be construed to deny the right of a member bank to accept a draft to which is attached at the time of acceptance a bill of lading covering an automobile or automobile tires in the process of shipment, provided that the draft otherwise complies with the terms of the law and the regulations of the Federal Reserve Board. December, 1919.

199. Bankers' Acceptances Secured by Documentary Drafts on Foreign Buyer.

Section 13 provides in part that member banks may accept drafts "which grow out of transactions involving the importation or exportation of goods." The scope of this provision is by its terms a broad one and the Board has heretofore ruled that a draft drawn upon a national bank which is secured by a documentary draft drawn by the same drawer upon a foreign buyer is eligible for acceptance by the national bank. It has ruled, however, that no bank which has purchased a foreign documentary draft may refinance itself by drawing a draft on a member bank secured by the documentary draft. If, however, the seller or shipper of goods draws a draft upon the foreign buyer or consignee payable abroad and secured by shipping documents, it is proper for the drawer to finance that shipment by a banker's acceptance secured by that documentary draft. In fact, it appears to the Board that that is the proper way for the transaction to be handled since the accepting bank then has control of the draft and documents out of which its own acceptance is ultimately to be paid. June, 1920.

200. Charges for Collection of Notes and Acceptances.

The question has been presented as to whether a member bank may make a charge against a Federal Reserve Bank for the collection and remittance of "notes and acceptances payable at the member bank."

Under the terms of section 13 of the Federal Reserve Act no member bank may make a charge against its Federal Reserve Bank for the collection or payment of "checks and drafts" and remission therefor by exchange or otherwise. In any case, therefore, where a Federal Reserve Bank presents to a member bank for payment a check or draft drawn upon that member bank, no charge may be made against the Federal Reserve Bank for remitting to it by exchange or in any other manner of payment.

Inasmuch as the acceptance of a member bank is necessarily a "draft" on that bank no charge may be made against the Federal Reserve Bank for its payment. The Federal Reserve Board, however, has frequently had occasion to rule that the provisions of section 13, discussed above, do not prohibit a member bank from charging the Federal Reserve Bank for the service of collecting maturing notes and bills of exchange drawn upon individuals, firms, or corporations other than banks. The fact that such a note or bill of exchange not drawn on a bank may be made payable at that bank does not bring it within the restrictions of section 13 referred to above and does not preclude the member bank from making a charge against the Federal Reserve Bank for effecting its collection and remitting therefor by exchange or otherwise. July, 1920.

201. Commercial Paper for Financing Development or Construction.

Inquiries are frequently received by the Federal Reserve Board as to the eligibility of paper drawn for the purpose of developing properties or of financing various kinds of construction.

The Board is of the opinion generally that the note of the owner of property which is to be developed or built upon, the proceeds of which note have been or are to be used by him to pay for the work of developing or building, is a note "the proceeds of which have been or are to be used for permanent or fixed investments" within the meaning of the Board's regulations, and that, therefore, such a note is not eligible for rediscount by a Federal Reserve Bank under the terms of section 13.

If, however, the note of an owner or producer is given in good faith to a contractor in actual payment of materials and services furnished by him for the owner or producer it may be considered to be technically eligible for rediscount as paper the proceeds of which have been or are to be used for a commercial or industrial purpose. There certainly is no doubt in such a case that the

paper in the hands of the contractor is commercial or business paper actually owned by him and as such should be considered eligible for rediscount when presented through a member bank, provided that it complies in other respects with the provisions of the law and the Board's regulations. If this were not true no paper in the hands of a material man received by him in payment for materials furnished in the building industry could be considered eligible for rediscount, a conclusion which is obviously not consistent with the scope and purposes of section 13.

It must be understood, however, that even though a note may be technically eligible for rediscount a Federal Reserve Bank may, in the exercise of its discretion, decline to effect its rediscount if for any reason it is deemed to be an undesirable investment, and should do so in any case where the ultimate payment of the note is dependent upon the success of the transaction giving rise to the note. A Federal Reserve Bank being familiar with local conditions and the peculiar requirements of its own district is in a position to determine in each case whether a particular note or a particular class of paper even though technically eligible is a reasonable or desirable investment for it to make. July, 1920.

202. Agencies of National Banks for Purpose of Accepting Drafts.

The following is a ruling made by the Comptroller of the Currency under date of July 16, 1920, in response to a request from the Governor of the Federal Reserve Board for an opinion as to the right of a national bank located in California to appoint an agent in New York to accept, in behalf of the bank, drafts drawn on it payable in New York and to pay such drafts out of the funds deposited in New York under the control of the agent.

Receipt is acknowledged of your letter of July 16, which raises the question of the right of a national bank located in California to appoint an agent in New York to accept in behalf of the bank drafts drawn on it payable in New York and to pay such drafts out of the funds deposited in New York under the control of the agent.

You state as this is a matter within the jurisdiction of my office you would like to be advised as to the answer which shall be made.

Frequent requests have been received from national banking associations to establish agencies for the transaction of a part of their business at points other than the banking house, and it has been the uniform practice of the office to decline approving such requests.

In December, 1919, a national bank in New York requested to be authorized to establish an agency in that city to receive deposits from its customers and accompanied the request with a brief of

counsel insisting that the establishment of such an agency would not be in violation of the National Bank Act.

Notwithstanding previous rulings of the office, in view of the urgent request of the bank and of its counsel, the matter was referred to the Solicitor of the Treasury, and under date of December 9, 1919, an opinion was received from him stating that such action would be in violation of the National Bank Act, and that the request of the bank could not be approved without legislative sanction.

Section 5190, U. S. R. S., provides in part that "the usual business of each national banking association shall be transacted at an office or banking house located in the place specified in its organization certificate." This has been construed by the Attorney General and by the Solicitor of the Treasury to mean one place or house.

It would perhaps not be questioned that accepting and paying drafts is a part of the usual business of a national bank, and it has been held in the case of Armstrong *v.* Second National Bank (38 Fed., 883) that an arrangement by the bank to provide for the cashing of checks drawn upon it at any other place than its office or banking house would be in violation of section 5190.

The same rule would seem to apply to the payment of drafts as to the payment of checks.

It is also my opinion that it would be bad policy on the part of a bank to authorize the accepting of drafts drawn upon it by an agent authorized by power of attorney who is not an officer of the bank.

For these reasons I am of opinion that the request of the California bank should not be approved, and if approved would be in violation of section 5190, U. S. R. S.

PART III

DATA FOR TRADE ACCEPTANCE CAMPAIGNS

The writer of this book, through professional business reports and services, has put the acceptance into use with about two hundred firms in all sections of the United States. The matter in many of the following chapters has been used in whole or in part in the launching of trade-acceptance campaigns by associations, bankers, and business men.

In these chapters are also carefully explained practical methods which experience has proved will gain results for those planning to use the acceptance.

It is obvious that for the above purposes the treatment must of necessity be from a *positive* (not to say "propaganda") standpoint and couched, not in academic terms, but in the language best adapted to impress the *class to whom it is addressed.* It will be well therefore to read these chapters with this in mind rather than to consider them as an unprejudiced analysis of the subject.

CHAPTER XX

WHAT CAN THE TRADE ACCEPTANCE DO FOR THE AMERICAN BUSINESS MAN?[1]

If we put ourselves in the place of the average American business man who is considering "accepting" a trade acceptance sent him by a seller, or is himself sending one out, this is the first question that will come to our mind: "What can the trade acceptance do for me?" It's a fair question, and merits a fair answer. It is most desirable that this answer be couched in terms that can be understood, not only by the banker or credit man, but equally by the average merchant or manufacturer.

Almost all business men are sellers, buyers, and borrowers, so that every phase of the application of acceptances in buying, selling, or banking, will be of nearly equal interest to all. Let us examine briefly some of the benefits that may accrue to the seller, buyer, and banker, through the general use of trade acceptances.

What the Trade Acceptance Will Do for the Seller.—It will:

Make credit business safer;
Make credit business more profitable;
Make credit business grow;
Command the consideration and respect of the bankers, sellers and buyers with whom he deals;
Help to gauge accurately cash resources;

[1] The substance of this chapter has been furnished, in whole or in part, to trade associations, banks, etc., seeking concrete data on the advantages of trade acceptances for presentation to their clients.

Help to limit his borrowing to his exact needs;
Help to reduce interest charges to funds in use;
Help to obviate much uncertainty in making collections;
Help to eliminate customers who are slow pay;
Help to preclude the taking of unearned cash discounts;
Help to prevent the customer from taking extra time over agreed terms:
Help to eliminate misunderstandings and friction over credits:
Help to discontinue acting as customer's banker;
Help to discount up to 100 per cent of good trade acceptances;
Help to obtain funds to discount his bills;
Help to take advantage of desirable cash bargains;
Help to compile for his business an accurate cash budget;
Help to borrow adequate funds as needed for his business:
Help to borrow for his business at a reasonable rate of interest;
Help to carry customers (through bankers) when they need (and are entitled to) extended time;
Help to buy money from banker on business basis;
Help to get business accommodations, not "special favors."

Most Sellers Are Also Buyers.—Since most sellers are also buyers, therefore they will also benefit from any advantages to a buyer derived from trade acceptances, as well as from the fully proven principle that anything which tends to make more profitable the business of a customer reacts to the advantage of the seller through more generous buying and more satisfactory paying by the buyer. Therefore, the benefits to the buyer should be of equal interest to all American business men; and here are some of them:

What the Trade Acceptance Will Do for the Buyer.—It will:

Help the buyer when needing (and deserving) extra time accommodations;
Help the buyer not to miss discounts;
Help the buyer not to overlook prompt payment on due dates;
Help the buyer to judge when he must collect from his own customers;
Help the buyer to judge when to ask seller for extended time;
Help the buyer to judge of distribution of his purchases;
Help the buyer to judge of distribution of his payments;
Help the buyer to judge when and how much to borrow from banks;
Help the buyer to show banker where funds asked for will go;
Help the buyer to borrow more, through banker's accurate knowledge of his affairs;
Help the buyer, in some cases, to ask from seller special favors for accepting;
Help the buyer to measure more accurately his risks;
Help the buyer to do a businesslike and profitable business.

Benefits of the Banker Shared by the Borrower.—The benefits of the banker are shared by the business man. Investigation shows that accommodations and interest rates accorded to the business man by the banker are strictly in accordance with the liquidity and profit to the banker of his commercial loans to buyers or sellers. Therefore, for the reflected benefits he should derive, every benefit received by the banker should be fully considered and appreciated by the business borrower. Here are some of them:

Helps the Banker Will Receive from the Trade Acceptance.—The trade acceptance will help the banker:

To gauge more accurately customer's needs;
To gauge more accurately probable use of funds borrowed;
To gauge more accurately basis of loan;
To obviate the necessity of loaning on mixed collateral;
To rediscount paper more advantageously;
To handle greater amount of legitimate paper for customers;
To judge of liquidity of customer's transactions;
To create commercial paper of better class;
To care more fully for customer's legitimate needs;
To loan on liquid assets, not "special favors";
To prevent necessity of customer's assuming dangerous loans;
To give customers needed counsel;
To increase the amount of legitimate banking paper;
To increase liquidity of secondary reserve;
To encourage prompt collections from customers;
To create and keep better credit conditions.

Helps to General Business.—The trade acceptance will help the business man:

To do credit business on banking principles;
To release open-account, frozen capital:
To do more business safely on less fixed capital;
To create lower rates of discount through open discount market;
To borrow needed funds at less cost;
To guard against over-extension;
To get more uniform time and terms;
To put up properly to the banker the carrying of credits;
To improve business finance, and thus to make better business men;

To assist the United States in relieving the strain on credit, in times of stringency, through Federal Reserve Bank facilities.

The foregoing may seem quite an impressive list of benefits, and rightly so; but the shrewd business man usually judges that there are two sides to a question, and will inquire what the opponents to the adoption of trade acceptances have to say.

Objections against Acceptances.—There are, of course, objections that can be raised to the use of the trade acceptance in American business, but inquiry has found that the highest authorities on the subject do not regard them as fundamental. These objections may be more or less "real" now, and some of them difficult to handle, but objections have little weight with the average business man in marketing his wares, or only serve to sharpen his wits and to increase efforts to overcome all such obstacles to 100 per cent success.

If this analysis has been correct, and the principles and grounds are sound and firm, the obstacles are a mere detail to be overcome in working out the use of this credit device. Here are some of the common objections to the adoption of the trade acceptance, with hints as to their solutions:

Satisfaction with present open-account credit methods of the U. S. (*Study successful methods of other big commercial nations.*)

Difficulty in educating buyers to "accept." (*Use adequate and attractive explanatory data and methods.*)

Seller's objection to the trouble of putting acceptances into use. (*Not difficult when proper system is adopted.*)

Objection of sales department to "new terms." (*Make them attractive to customers.*)

Objection by bankers that their legitimate profits will be curtailed by the use of trade acceptances. (*Not attitude in other countries or with best bankers here.*)

Objection by bankers that sale of trade acceptances lessens borrowers' assets. (*Depends on what is done with proceeds.*)

Objection by bankers to passing on to borrower preferential rate when accorded by Federal Reserve Banks on trade acceptances. (*This is purely optional but a fair method of procedure to consider.*)

Objection by bankers that cost of handling loans will be increased on account of increase in items. (*This is equitably adjusted in other countries and no doubt will be in U. S.*)

Objection by buyer that he dislikes to sign notes or drafts. (*Explain difference of this class of paper.*)

Objection by buyer to being held down to exact day of payment. (*Let him make terms when buying that he can live up to when paying, or request an extension, not take it.*)

Objection by buyer that he does not understand plan. (*Careful explanation at outset is always best.*)

Objection by buyer that he does not understand how he will benefit by accepting. (*Make it obligatory or offer attractive terms.*)

Objection by buyer that he forfeits privilege of return or claim on goods. (*Not valid with any fair-minded seller or buyer.*)

Objection by buyer that "other houses" don't ask him to "accept." (*Urge its adoption by others in your line of trade.*)

Objection by seller that competitors are not using trade acceptances. (*The first users should benefit most, where properly handled.*)

Objection by seller that the buyer won't like it. (*Sell it to him like any other new line of goods.*)

Objection by seller that it may tend to extend period of credit. (*Need not be used in short-term credits, although it tends to restrict rather than extend time of Payment.*)

Objection by buyer that it will kill the cash discount. (*Is purely a* CREDIT *not a* CASH *instrument.*)

Objection by buyer to "anything new under the sun." (*Be patient with him.*)

Objection by seller to "anything new under the sun." (*He should wake up.*)

Objection by banker to "anything new under the sun." (*There are not many of them left.*)

The foregoing inventory of benefits and drawbacks incident to the use of trade acceptances for each class of

users practically covers the sum total of "pros and cons." It will be only necessary for the reader to compare as a whole the list of effects, beneficial or otherwise, to be able to realize that the use of the trade acceptance is fundamentally sound and that no valid objections exist against its general employment in credit transactions involving the sale or purchase of goods or merchandise of every description.

The Federal Reserve Board has even gone so far as to include as a basis for trade acceptances the sale of advertising of a commodity, and the Federal Reserve Banks are authorized to rediscount at preferential rates, on the same basis as those representing any merchandise, proper trade acceptances accepted by those buying such commercial advertising; evidently with the thought that such advertising should return to the acceptor, through goods sold, the cash wherewith to meet the acceptance when due. This puts business advertising in the commodity class.

Most domestic merchandise operations on credit come within the scope of the acceptance, for good or ill, and the consensus of those best qualified to judge is that bankers and business men, big and little, will receive more concrete advantages from coöperation leading to the adoption of acceptances, where practical, than through any other radical change in credit policy that has been offered in the past decade or two to the commercial world of the United States.

CHAPTER XXI

ACCEPTANCES AND THE MANUFACTURER AND WHOLESALER[1]

Accuracy and Economy of the Trade Acceptance. —That "credit is the life of the trade" is, no doubt, true of most lines, and how to *liven up the credits themselves* is a daily problem for the financial man of every manufacturer or jobber. How to make credit more accurate, more economical, more profitable, is a valuable study for any executive or credit man of a manufacturer or jobber, whether large or small.

The trade acceptance is distinctly a credit instrument, and is designed solely to improve and even enlarge the scope of proper credit accommodation, not to supersede sales for cash. The fact that the buyer has agreed that his debt will be paid "on a certain day at a certain place in the United States, in dollars" certainly works for *accuracy* of credits, even in cases where the seller may have extended the usual *nominal* open-credit terms, except in the rare cases where the acceptance is not met when due. When all factors are known and all lost motion on guesswork and the attendant necessary "margins of safety" can be eliminated, economy in credits should ensue, with its attendant benefits.

The foregoing factors—accuracy and economy—will place credit on the high business basis it deserves, and may make it as eagerly sought after as the desirable, though costly,

[1] The purpose of this chapter is to make clear to the manufacturer and jobber the advantages they can derive from the use of acceptances. Many associations of manufacturers have used this simple form of explanation with their members.

cash-discount business that most large sellers so highly prize.

In this connection the following quotation from a letter from an actuary of the highest standing and of broad commercial experience is pertinent:

> I believe that ere long the larger part of our business transactions on time will be placed in shape for adjustment by the acceptance of time drafts (acceptances) by buyers for their purchases and I look for a general shortening of credits, both by banks and dealers in merchandise throughout the nation, which will be facilitated by the rapid increase of the percentage of currency per capita, which is taking and will yet further take place.

If the individual benefits of a plan are satisfactorily demonstrated to the business man, it will tend to arouse his more active interest in the general benefits, which may more or less directly work to his advantage. The chief benefits of the acceptance to the manufacturer and jobber will be touched upon in this chapter.

Trade Acceptance the Only Paper Necessary from Order to Receipt.—Possibly one of the most concrete illustrations of the economy of the trade acceptance, and one easily demonstrated, is the concentrating in one paper, the trade acceptance, of the whole credit transaction, except the order and detailed invoice. If the trade acceptance is made at the end of the month to cover the period's transactions, it may cover a whole month's business. Its preparation, acceptance and discount, or collection through the bank, cover all needed processes or routine between seller and buyer connected with one or many sales and purchases.

Except for detail, the accepted acceptance furnishes the invoice, or statement; the transmission or collection letter; the "check" the buyer draws, with data as to what it covers, and its receipt, or acknowledgment, by the seller

(where customary). It does away with follow-up statements, or "reminders"; collection or dunning letters or drafts; and even "putting in hands of attorney," except when the trade acceptance is dishonored. This last is a negligible consideration, when credits are well considered.

The acceptance seems to form an ideal record to follow through for the seller, and a still more complete one for the buyer, because when he pays he recovers the original acceptance with all details thereon, including the seller's official indorsement and a record of payment by the buyer's own bank.

This simple transaction is one to minimize disputes and friction of all kinds, which usually arise after details have become dim and remain uncorrected for a period of time—such misunderstandings often requiring the sales-department's or salesmen's time to straighten out. A trade acceptance is either not accepted until all details are satisfactory and clear, or it is straightened out immediately on receipt of goods.

One paper, "from order to receipt," is the height of simplicity, which means efficiency at its best, and is especially valuable when covering the numerous transactions of most manufacturers or jobbers.

Credit Conditions Accurately and Graphically Shown.—Trade acceptances should afford relief to the "head" of the business, as well as to the head of the credit department, for the reasons that follow. They form easily discernible evidence, which automatically checks itself, that all such credits are not past due since a true trade acceptance is not issued for past-due accounts or renewed when they are not paid. Non-payment immediately acts as a danger signal to the seller, and thereafter these accounts are under such special observation and treatment by all departments as may seem necessary.

When credits are on an open-account plan it is prac-

tically impossible to judge what the collections will be in a given period. Debtors may take the time for cash discount, they may take full net time, or they may, as often happens, take over the time allowed. Part of these accounts may be sold on one set of terms; part, maybe, on another. It is not practical even to judge collections by some past period.

A wholesale credit manager is a superman if he can even guess within a considerable percentage what will be collected in a given time. This guesswork is often both expensive and risky. When trade acceptances are used, instead of open accounts, figures can be practically exact as to when the money will be in hand and arrangements may be made in advance accordingly under the best possible terms.

Investigation, covering hundreds of users of trade acceptances, proves that firms will pay a bank obligation when they will overlook or disregard an obligation to a manufacturer or jobber. One manufacturer says:

My customers will pay a trade acceptance sent them through a bank, when they wouldn't pay me. They seem to fear that the banker would give them some kind of a "black mark," and so they manage to pay almost all trade acceptances presented through a bank.

A jobber recently said:

Frequently I am called on the telephone by a credit man of a competitive house, who asks, "How is So-and-So's account with you to-day?" I say: "Well, he owes us only the current month's indebtedness. The balance of the account ran off the tenth of the month and it was paid." He says: "I don't understand. Why, he owes us $6,000 and to-day has paid us $1,000 on account and has promised to pay the balance on future dates as frequently as he can get the money together." The explanation is that the buyer gave us trade acceptances and he met them when due.

Trade acceptances are almost invariably paid when due. In

the fifteen months' operation of the acceptance in our concern we have had only one or two that have not been met, and there was a reasonable explanation for these cases.

Bookkeeping and Accounting Simplified.—Even such little benefits as satisfaction, the avoidance of friction, and small savings of time and money are gained by having each customer's account in balance for the previous month, as is the case when many accounts are paid by trade acceptance. This latter condition causes one of the many bookkeeping short-cuts and savings that can be worked out through the settlement method of trade acceptance.

The accepted acceptance is a practical acknowledgment of the correctness of the charge, if not of the delivery, and is valuable to the accounting department, especially in case of dispute or default or return of goods, because it shows a legal acceptance of charge and goods by buyer and makes the obligation of the buyer rest in the acceptance rather than on the open, unproved account. Automatic closing of each credit is not only effective and economical, but offers the least chance for argument and friction with the buyer, because it is apparent to him, without the need of the seller's bringing it to his attention, that it is "up to him," and he is constrained to treat the debt accordingly. Any extension that the seller finds desirable or expedient to give must be arranged for by the buyer with a definite date of closing agreed upon and is, at the same time, duly appreciated as a favor of the seller, who usually covers any unpaid acceptance by a note, with interest from the due date, as is the custom in most foreign countries.

Special Accommodations: Over-Extension.—Special accommodations to all buyers (the manufacturer or jobber included) may be necessary and desirable, at times. Business credits should be reasonable, elastic, and able to accommodate themselves to situations or special conditions which may arise. However, extended accommodations that are

not warranted must be carefully guarded against, since the best customers can be made undesirable by unreasonable indulgence.

The trade acceptance lends itself to giving a "little extra time or special discount," when it seems best at the time of sale, but it also fixes this accommodation exactly and graphically, stamping it as a special concession to the buyer, and, therefore, only applicable upon special written and signed arrangement with and sanction of the seller. The very fact that it is thus forcibly and exactly defined, as to date, amount, and terms, by both parties concerned, tends to throw safeguards around it for all.

Over-extension is a dangerous game for both buyer and seller. The buyer, if he handles these matters carelessly, is apt, as they say in the vernacular, "to bite off more than he can chew." This is unfortunate for all concerned and reflects unfavorably on legitimate selling. It is a condition that is being discouraged by the best business men, both buyers and sellers, because the latter see the dangers from over-selling as well as over-buying and are more carefully guarding against the tendency to over-extension and buying beyond their own resources while carrying the buyer's credits as well as their own. Many conservative wholesalers do this by setting a sales quota for a district and sub-quotas for each buyer.

The trade acceptance, in helping to bring to the buyer's attention the "day of reckoning," automatically works to make the seller's outstandings more dependable and safe, and when such outstandings are in good trade acceptances, not only are they better safeguarded, but the good debts may be financed under proper conditions up to 100 per cent and thus relieve any shortage of resources of the wholesaler to carry the account properly to its maturity on the best terms. At all times all safeguards against over-extension should be well considered.

To the treasury division of a wholesale business the ability to gauge accurately when outstandings may be expected to be settled, instead of guessing when an open account will be paid, is like the guiding of a ship by the compass compared to the steering by the stars or the mariner's judgment. The trade acceptance acts as a compass for the credit "Captain."

Terms for Buyer as Well as Seller.—The average buyer is very particular as to "terms" when he buys, and expects the seller to put them in writing. In signing or sanctioning an order, the buyer legally agrees to such terms and can be held to them in a court proceeding, and it seems absurd that such a large percentage of average buyers disregard or stretch such terms to the breaking point, when it is their obligation, as much as the seller's, to live up to them.

Why, in all fairness, the buyer should not sign an acceptance, just as the seller, or his agent, O.K.'s or acknowledges an order, would be beyond any fair-minded buyer to explain; except with such an excuse as "I never did before" or "others do not ask it."

The buyer takes it for granted that the seller will live up to his agreement (and sees that he does); the seller can take the same high ground in the attitude that the buyer expects to pay when due and will have no objection to evidencing his willingness by "acceptance."

If by diplomacy or otherwise the buyer can be shown the fairness and desirability of accepting, a big percentage of outstandings can be carried in "acceptances receivable." Thus, a reserve is furnished to the treasury, which can be so accurately counted upon or realized upon, that it will put it in an easier and safer position than ever before. This condition has been the making of some wholesale businesses, the saving of others, and has been of benefit to practically all who used it.

With such a "reserve" available to the treasury department, any calls for cash for discounts or bargains can usually be met without effort or delay, and at the lowest interest or discount rates.

Banking Benefits to the Seller.—It will not be necessary for the solvent wholesaler to have more cash in his banks than the average requirements demand, since it can be obtained through discount of trade acceptances at the bank, or, when the acceptors are nationally known, in the competitive discount market. Trade acceptances may cause a very desirable change in the attitude of a client toward his banker. Through inquiry it is found that now the average borrower feels "like a suppliant at the throne," although this is probably far from the banker's desire or intention.

Of course, in case of big borrowers, "lines of credit" given by bankers are more or less accurately based upon the statements, written and verbal, of the borrower, but in such cases a banker leaves a safe margin on the "accounts receivable" (usually 50 per cent), and grants the loan or special accommodation without the usual "give and take" of a common commodity transaction.

Trade Acceptance for Bank Credits.—We will now suppose that the bank grants the usual line of credit or discount on single-name paper of the wholesaler based upon his statement showing tangible assets of plant, inventory, and accounts receivable (except trade acceptances receivable) over current liabilities.

The same borrower can also come to the banker and offer him, in addition to the above assets, the current obligations of many *other business men* (trade acceptances), indorsed by the borrower and which, it may be reasonably supposed, are backed up by "goods or the proceeds therefrom in the hands of the acceptor (debtor) with which to liquidate the obligation," as trade acceptances are strictly

defined and limited by the rulings of the Federal Reserve Board.

This sale to the banker, or in the discount market, of other people's obligations, is a different thing from borrowing on one-name paper based on rather indefinite assets and one that the banking institution which discounts or buys the acceptance will come to look on as an attractive class of "accommodation" and often have much greater respect for this syndicated responsibility, backed by the buyer's name, than for the single obligation alone.

At least, the Federal Reserve Board rulings indicate this should be the attitude of bankers, and it is probable that the borrower will find an added respect accorded by the banker to such financing, when the acceptances are of a good class and the banker knows the borrower is conservative in the granting of credits.

It is worth while to have the banker favorable to the seller's carrying trade acceptances receivable and willing to take the good ones offered him, as this may mean a *100 per cent sale,* not a *50 per cent loan* on accounts receivable, as in the past. Since the banker merely has to indorse acceptances over to the Reserve Bank and get 100 per cent cash, at often ½ of 1 per cent per annum less interest than his "other commercial paper," he should be glad to get *good* acceptances and should grant discounts thereon freely.

The Federal Reserve Board's ruling also exempts the banker from limiting his discount to one borrower on diversified trade acceptances to 10 per cent of his capital and surplus. The Government has thus recognized and backed up the American business man, when he does his financial business in a businesslike and safe manner. The banker knows that, if he does not give "accommodations" on good trade acceptances, borrowers are able to go to the banker across the street or in the next town, or even

to the commercial discount market, with "gilt-edge" acceptances, and sell them at economical rates, which is much more difficult with other paper based on open accounts.

As the Reserve Banks often allow member banks a preferential discount on eligible trade acceptances and the banks know that it averages more liquid and safe than "other commercial paper," the percentage of discount is sometimes slightly lower than on one-name paper, except of the highest grade.

Another Saving to the Borrower.—Here is a saving worth while for any manufacturer or jobber to figure on. When getting a loan or line of credit, the banker "expects" a certain part of it to be kept at the bank, and clearly indicates his indifference to further loans, if this balance of at least 16⅔ per cent of such loans is not maintained.

It is no secret that for the banker this not only creates a "margin of safety" on the borrower's single-name loan, but furnishes the banker with funds for loans to others to the amount of one-sixth of the borrowed money. If he is getting interest thereon at the rate of six per cent, this works to increase the cost of the loan to the borrower to a rate of seven per cent per annum, as it also does the profit on the transaction to the banker. On the sale or discount of trade acceptances (since they are not primarily the seller's obligations but those of the acceptors), such a large margin of safety or balance left against the loan may not be demanded by the banker; in which case the borrower will benefit accordingly.

Experience shows that this fact, that a wholesaler's trade acceptances are the obligation of the "other fellows," usually in diversified localities and trades, makes it safer for the banker to count on prompt payment, and does away with "renewals." This reflects an equal safety to the seller in that, if he has looked well to his credit risks on such buyers, the probability of his having to meet

more than a slight percentage of outstanding trade acceptances himself, on his contingent liability, is small.

Having no need to renew trade acceptances, as he might have to do on single-name paper based on open accounts, there is no chance that the banker may ''turn him down'' when asking for ''renewals,'' as might happen in times of money stringency, low bank balances, etc. This means added safety to the wholesaler. If the seller saves some prime trade acceptances for a ''reserve borrowing fund'' (as do some banks), he may feel satisfied that he will be able to discount them, and, therefore, he can sometimes save interest by borrowing only enough, and not a surplus, as some borrowers do, ''to have some on hand in case of an emergency.''

Seller Often the Buyer's Banker.—Most manufacturers and jobbers who sell on open-account credit practically furnish much of the working capital upon which the buyer handles the seller's goods. He fabricates the goods and stores or ships them to the credit buyer. As the word implies, the credit buyer does not borrow the money to pay for them; he says, ''Charge it.'' He does not even help to finance the deal on the old open-account basis; he just ''hangs it up.'' The seller must *finance him until he pays.*

The manufacturer or jobber probably finds it necessary to discount his bills and, when necessary, borrow money with which to do it, especially where he does not buy himself on trade acceptances. It becomes necessary to make more one-name paper or even ''hypothecate'' accounts, with the latter's consequent dangers and high expenses.

That this matter of hypothecating open-charge accounts is not a figment of the imagination is conclusively proved by advertisements appearing daily in newspapers all over the United States. Two such advertisements which appeared in one edition of a New York daily commercial

newspaper, one firm advertising offices in six cities, are reproduced in Chapter XII.

That this "hocking of accounts in secret" is undesirable, as well as very expensive, has been proved so often that it does not need successful contradiction, and the only excuse that can be fairly offered by firms using this method of financing is that they need the money for working capital before the buyer is ready to pay them. This condition is neither disgraceful nor extraordinary, as it exists in all foreign countries as it does here; the only difference being that most of the foreign financial systems have recognized it as a natural consequence of wholesale business and devised a cheap and open, as well as a practical, method of covering such needs through banking facilities.

A similar simple, honest instrument, which is used in nearly all commercial nations to cover credit sales, is offered to the American manufacturer and jobber in the trade acceptance. The safeguards thrown around the acceptance by the law and rulings of the Federal Reserve Board are such that not only to give it but to discount it, for the legitimate operation of a business extending credit to its customers, is proof of highest honesty and good judgment in finance.

Why Does the Buyer Want the Seller to Be His Banker? —The buyer expects the manufacturer or jobber to finance him for no valid reason, but merely because he knows no other method, when it is not convenient to pay cash, and he is accustomed, often forced, to credit buying. Many retailers who use the open-account system do not understand to-day that they can get as much, or even more, credit by giving to the wholesaler the equivalent of their purchase in bankable paper, merely by signing a trade acceptance, thereby evidencing that they have bought such goods and will pay for them *when due,* and not one day *before. This does not hurt their standing or credit,* but,

on the contrary, improves it with the bankers, the mercantile agencies and the manufacturer or jobber.

What can the seller do with such paper? He can practically get out of the banking business by turning the credit buyer's paper over for cash to the banker. The banker then will be the credit buyer's banker, and the seller will no longer be a "banker," but merely what he is—a manufacturer or jobber.

Trade Acceptance Not Limited as to Time.—One good point of the trade acceptance for the wholesaler to note is its elasticity at the time it is made; which is the right time to arrange terms, even when there is a desire to extend the time. When a sale is made, the buyer can be given as much time as seems prudent or desirable, and the trade acceptance made accordingly. There is no legal time limit for a trade acceptance, any more than there is for a note. Both have to be made within reason, for the safety of all concerned and in order to discount the acceptance, since the bank will judge them accordingly and will make little distinction between notes and acceptances in judging their discountability. The banker will consider whether the time given by the seller to the buyer is reasonable and also the fact that the usual acceptance cannot be rediscounted by the banker with a Reserve Bank for more than 90 days before due date.

If the customer needs extra time, let him arrange for it when he buys, because a trade acceptance can be arranged accordingly and it will probably still be within the time limit to finance it through the bank, for the whole period, in one single transaction, without inconvenience or embarrassment to any one concerned.

When the Buyer Cannot Pay When Due.—A small buyer should figure when he can pay as does a manufacturer or jobber, but if it occurs that he cannot pay the trade acceptance, the wholesaler would be in a position to favor him

and hold his friendship, just as readily as with an open account. As explained in Chapter VIII, there are various simple methods of carrying the account, which will take care of the trade acceptance when not paid at maturity and give the buyer all the time that may be deemed desirable.

However, this definite asking for extension or favors by the buyer brings it specially to the seller's attention and lets him decide how much extra time and cost he wants to allow on the accounts of slow-pay customers, which will *not be unfair to those who pay promptly.* It is possible thus to make a deliberate decision whether or not the chronically *slow-pay man,* who won't arrange terms in advance, is a profitable customer, or if it is too great a drag, if not a risk, to keep him on the books. His elimination would save some *slow-pay costs* or losses on customers who are *slipping back* in their business and who *may not realize it themselves,* in which case the *acceptance will tell them.*

"Overlooking" Due Dates and Taking Unearned Discounts.—Since through the buyer's acceptance his bank is authorized to pay the amount of the trade acceptances on the due date, it will save the often honest overlooking of pay-day by the buyer, which also means much to him, for prompt pay is a tonic and a safeguard to the business of the buyer as well as to that of the seller. Formerly, when the buyer remitted less cash discount, five, ten or more days after the discount day had passed, the seller had the equally unpleasant choice of pocketing his loss or returning the remittance, not knowng whether the latter would precipitate trouble.

If the buyer has "accepted" on receipt of the trade acceptance, and thus "paid," it is simple to return the tardy cash remittance or the accepted acceptance, previously received, whichever seems best. If he has not signed

the trade acceptance, it will simplify matters greatly if, in returning the cash remittance, his attention is drawn to the fact that on account of his not "accepting" within the discount period, his account has been noted to be paid on net open-account terms. However, the seller would still be pleased to have him accept the trade acceptance. This method saves the unearned cash discount and opens the way for the buyer to "accept," besides avoiding a drastic handling of the matter.

How It Helps the Bank to Help the Seller.—The bank's chief source of profit lies in lending its money. Its daily problem is how to lend all it safely can and yet keep loans so "liquid" that it will be able to realize on them promptly and economically. It is, therefore, to the bank's interest that customers borrow from it all they safely can. This being known, the national banking laws are such as to throw safeguards around the conditions under which a bank can lend the cash entrusted to its handling. This is proper for the bank's protection and guidance, as well as for the depositors.

One of the statutes most often invoked, especially in the smaller banks and communities, is the 10 per cent restriction, which allows not over that percentage of a bank's capital and surplus (and not over 30 per cent of its capital) to be loaned on any individual's or single firm's paper. To a big borrower, no matter what his financial standing, this is often inconvenient and often costly. If he must seek other avenues of borrowing, he may have to spend more time or money on such accommodations than they warrant. Borrowers may have to pay extras to brokers or discount houses on paper which is not easily rehandled.

Since the trade acceptance is *not* the seller's obligation, but a direct obligation of the *acceptor*, the 10 per cent rule applies only to the party accepting, and thus gives a borrower a line of discount limited only by the diversi-

fication of the acceptances he wishes to discount and the ability and desire of the bank to accommodate him. This helps especially in time of money stringency, when the outside sources of the borrower are curtailed; for a bank, to accommodate its customers, can in turn rediscount with the Reserve Bank all the acceptances it takes from the borrower and receive cash at often preferential rates.

The completion of the triangle, when the banker takes the buyer's trade acceptance from the seller and furnishes the cash with which the whole transaction is handled, is the valuable consummation of the plan. The benefits of this to the wholesaler and to business in general should be shown to the buyer; also that such benefits will be returned to him in better terms, prices, and other favors from the seller. All these "finer" points and details will gradually appear to the buyer, until he, like his Canadian and European brothers, will as readily sign the acceptance and take care of it as he does to-day the voucher or check, in his accustomed routine.

Any Helps to Business in General Reflect Benefits to the Wholesaler.—Much has been said and written about the benefits to credits, and finances in general, which the trade acceptance is aimed to bring. Bankers and economists point out that if the four billion dollars of "frozen" open-account merchandise credits, owing mostly to wholesalers, were in self-liquidating paper, such as trade acceptances, it would not only help the United States in financing the Government credits, but it would help the bankers to finance the legitimate needs of trade, and, in turn, to pass these benefits down through the manufacturer and wholesaler to the retailer and the ultimate consumer.

Since there seems to be such a preponderance of opinion among the authorities for proper acceptance credits, we will not take the space here to repeat the arguments given, but only emphasize the desirability for each big or little

manufacturer or jobber to do his bit as he is able, even though his individual firm may think it does not need the ensuing benefits, to an equal degree with others.

Ease and Cost of Money Affected.—It will be well for all business men to realize that, aside from other angles, anything that can create better commercial paper will reflect on the "ease" and "cost" of money to all. When enough of this high-class two-name paper has been created and offered, we may have a real discount market, as they have in European countries. Not until then may we hope to approximate their discount rates, averaging (pre-war) from $2\frac{1}{4}$ per cent to $3\frac{1}{4}$ per cent per annum.

When the manufacturers and jobbers fully see that this problem (which they may have thought of as concerning only the bankers) is *their* problem and means dollars in or out of *their* pockets, they should then seriously set about studying how far they can put their credits on the acceptance basis, and in return reap any rewards through their own business activities or from the betterment of credit business in general.

CHAPTER XXII

TRADE ACCEPTANCES AND THE RETAILER[1]

Trade Acceptances between the Retailer and His Customer.—When a retailer shares to the fullest extent in the benefits of the Federal Reserve Act and banking facilities offered to all business alike, by the introduction of trade acceptances in his credit business, it is believed that he can make his retail credits nearly as liquid and efficient as those of his much-envied neighbors, the jobber and the banker.

The fact that certain periodicals devoted to the interest of the retailer have stated that the manufacturers and jobbers who demand trade acceptances receive considerable benefits therefrom has drawn the retailer's attention to the advantages of this plan to the seller. In reference to that class of retailers whose working capital is insufficient to discount their bills for cash and who are dependent upon the prompt collection from their customers' charge accounts to meet their bills at maturity, these authorities have gone so far as to declare that if those from whom the retailers bought obliged them to meet trade acceptances without any additional time, they would be forced to seek some new plan of relief, such as more prompt collection, to enable them to meet the acceptances from the seller on their due dates.

Aside from buying for cash, the plan of getting trade

[1] This chapter is designed to be clear and attractive to the retailer. Manufacturers, jobbers, bankers, and others endeavoring to extend the use of acceptances in the retail trade have used it in whole or in part.

acceptances from the retailer's customer when possible may be the most feasible method by which the retailer can count on collecting his outstanding credit accounts to meet his own obligations, and therefore it is one that he should at least seriously consider. If it will contribute to quicker turnover of charge accounts and focus the retail merchant's mind on turning over all the goods possible, before the acceptance to pay for them comes due, it will have helped to solve two of the most important problems bearing on retail profits. These problems have played an important part in the success of the chain-store systems.

In any radical change like this in his relations with his customers, it is as important to the retailer as to the wholesaler, that he must use only practical methods to accomplish the results. To change the methods of a lifetime, the customer must be forced or coaxed to adopt the new plan. The retailer should seek to find out what other retailers have done and weigh the arguments the wholesaler has used for inducing him to pay by acceptance. He must be sure that he employs a method that will be a success.

Methods and Terms Used by Wholesalers.—Wholesalers in selling to the retail merchant and asking him to sign acceptances, have used one of three methods: (1) given no alternative but to accept to obtain credit; (2) asked him to accept, persistently, but did not insist; (3) asked him to do so and given him a preferential, over payment by open account, for accepting.

Through inquiry the retailer ascertains that it has been found that, in the wholesale business, if you are *strong* enough with your trade, you can make your terms *cash or trade acceptance only.*

Wholesale business also shows that, when you may lose trade to competition, if you leave no alternative to customers but to sign a trade acceptance, you must give them the choice and *"sell"* them this new credit plan.

Some wholesalers by patience and persistence educate their customers' taste to the point of liking to pay their bills promptly and agreeing to do so by the trade acceptance.

Other wholesalers find it more successful and quicker, if not cheaper, to induce their customers to sign an agreement to pay according to terms by dividing with their customers the benefits they themselves receive through this system.

The following plans describe methods of putting out trade acceptances by retail merchants to their customers, by making their acceptance obligatory, by making it optional, without advantage for signing, and by giving customers a bonus or preferential discount for acceptance. All of these methods are legal and practical, and the choice of a plan should be made by each dealer after careful consideration as to what will produce results of a satisfactory character with his particular trade.

System in Effect in a Middle-Western City.—The following is a brief description of a system now in effect in a good-sized city in Illinois by one who was active in the movement:

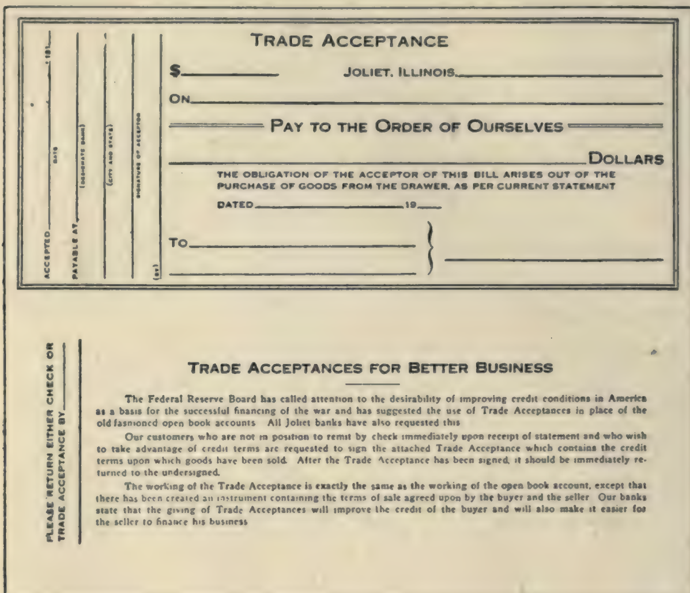
The adoption of the trade acceptance by a merchant merely means that he will send a letter to his customers at the end of the month when he sends out the invoices for the month's accounts and that he will attach to each of these invoices a trade acceptance properly filled out. In the letter he will call attention to the desire of the United States Treasury Department and the Federal Reserve Board to have the credit of America in the most liquid condition possible as a necessity for the successful financing of the great war's obligations.

If the customer returns a check, the merchant will charge the account off of his bills receivable ledger, marking the account "Paid by check." If the customer returns the trade acceptance, the merchant will make a similar charge, marking the account "Paid by trade acceptance."

Of course, when the trade acceptance is sent out it should be

fully filled out by the merchant, and he should mark plainly on the trade acceptance the space where the customer is expected to sign. He should also attach a letter or notice explaining the trade acceptance to the customer. It is necessary for the merchant to display persistence and patience.

A retail grocer located in a well-to-do section of a mid-Western city had a large number of customers to whom



ACCEPTED ______ (DATE) ______ 191__

PAYABLE AT ______ (DESIGNATE BANK)

______ (CITY AND STATE)

______ (SIGNATURE OF ACCEPTOR)

(BY) ______

TRADE ACCEPTANCE

$______ JOLIET, ILLINOIS______

ON______

PAY TO THE ORDER OF OURSELVES

______DOLLARS

THE OBLIGATION OF THE ACCEPTOR OF THIS BILL ARISES OUT OF THE PURCHASE OF GOODS FROM THE DRAWER, AS PER CURRENT STATEMENT

DATED______19__

TO______

PLEASE RETURN EITHER CHECK OR TRADE ACCEPTANCE BY______

TRADE ACCEPTANCES FOR BETTER BUSINESS

The Federal Reserve Board has called attention to the desirability of improving credit conditions in America as a basis for the successful financing of the war and has suggested the use of Trade Acceptances in place of the old fashioned open book accounts All Joliet banks have also requested this

Our customers who are not in position to remit by check immediately upon receipt of statement and who wish to take advantage of credit terms are requested to sign the attached Trade Acceptance which contains the credit terms upon which goods have been sold. After the Trade Acceptance has been signed, it should be immediately returned to the undersigned.

The working of the Trade Acceptance is exactly the same as the working of the open book account, except that there has been created an instrument containing the terms of sale agreed upon by the buyer and the seller Our banks state that the giving of Trade Acceptances will improve the credit of the buyer and will also make it easier for the seller to finance his business

FIGURE 40. FORM OF RETAIL TRADE ACCEPTANCE IN USE IN JOLIET, ILLINOIS

he sold on monthly terms, all bills payable on the tenth of month following purchase. The majority of his customers could be classed as "good," but the usual trouble prevailed in his business—the "good" customers did not pay until they got ready, sometimes 5, 10, 20 and more days after maturity. This grocer determined to put a stop to

this practice and sent out a letter to each of his customers, extracts from which follow:

We want to thank you for your past patronage and to assure you that in spite of increased cost of goods, transportation difficulties, and scarcity of commodities, our every effort will be to serve you at the least cost and with the best quality of groceries obtainable. To do this to your satisfaction we are going to ask for your coöperation.

Our relations have been too pleasant to be interrupted on account of present conditions, and we are going to take advantage of the facilities offered by the Federal Reserve system to meet just such emergencies in order that we may continue to sell you on our usual terms.

We are enclosing a TRADE ACCEPTANCE, which we ask you to kindly fill in and sign on the red lines across the face of the form.

First, you enable us to finance your purchases, so that we can buy in the best markets and at the lowest prices, giving you the advantage of the saving made thereby, and, second, you relieve us of many details of bookkeeping, thus enabling us to devote our time and efforts to improving our service to you.

The results of the above letter were that 67 trade acceptances were sent out on the first of the month. Sixty were signed and returned, of which 48 were met at maturity.

Experience in a city of 50,000 is given in a letter from a retail dry-goods merchant to another merchant, of which extracts follow:

The trade acceptance started out here and was taken up by only a few merchants at the start, but we believe it is bound to grow, particularly during these times when the merchants are giving more consideration to their credits.

On the first of the month we sent out 62 trade acceptances, some to customers long over-due with their payments, and we were very happily surprised to collect (from a total of $1300 as represented in these 62 certificates) over $700 within the first 30 days. We do not aim to have any bad accounts, as we are very particular in extending credit, and while these people are good they are slow.

More merchants the following month took up the trade ac-

ceptances, and through our Merchants' Association (a strong, harmonious association of the retail merchants) we are going to get good results, as every one strongly favors the plan.

Cards, similar to the following, are sent monthly to customers as part of the foregoing educational campaign on acceptances:

To our customers:

We hope you will make every effort to help relieve the financial strain on our country by paying the enclosed bill immediately, but if it is not convenient for you to do this we would ask you to kindly sign and return the enclosed trade acceptance, which provides for our usual 30 days' credit terms.

In order to comply with the desire of the Federal Reserve Board at Washington, we are selling all goods on the basis of cash within five days or a thirty-day trade acceptance.

Salesmanship to Sell a New Line.—Most merchants agree that it takes a salesmanager to create a demand when one has something to sell, even if it be goods on "credit," and that he must seek a market for it and make price or terms according to the law of supply and demand. Where there is no demand, he is obliged to create one by practical and successful methods. Whether it will be best to create a demand for the trade acceptance through a slow process of education or through more intensive or spectacular methods will depend upon many circumstances, including how long the seller is able to await results, and whether the trade sought is of such a permanent nature as to allow slow methods.

No Demand for Trade Acceptances by Retail Credit Buyers.—A banker who has made an especial study of the application of acceptances in retail selling says:

The merchant's customers are perfectly satisfied to retain the old book-account system because, under this system, they do not feel they have to pay their bills until it is convenient for them to do so.

This banker goes on to say:

> Local banks have encouraged this matter as much as possible, offering to handle the trade acceptances for the present without any charge of any kind and also offering to discount them at a rate of interest of one-half of one per cent lower than is charged on the straight notes of the merchants.

One Way to Introduce the Plan.—The action of the bankers of the aforementioned town in offering the merchants reductions in bank charges on acceptances to encourage them is a practical method of introducing the new plan with the consumer. One of the highest authorities in the credit world said:

> Any advantage obtained through preferential rate in Federal Reserve Bank rediscount or otherwise should, at this time, be passed on down the line even to the ultimate consumer, with the object in view of forwarding the more general use of trade acceptance as rapidly as practical.

Some have found special terms or inducements the most rapid method of putting the trade acceptance in effect with the ultimate consumer.

Study of the Human-Nature Problem Illuminating.—The retailer, if he is an analyst, as many of them (consciously or unconsciously) are, figures his problems out from the "human-nature side." He finds the "human" side is usually most apparent and the farthest in the scale from those whose minds have been trained to the highest business or most altruistic field of thought and action. In business dealings the "ultimate consumer" exhibits most plainly the human-nature side of business, especially when this class is chiefly composed of people who have not had a business education and thus have not attained the ideals of the trained business man.

One of the most common forms of human frailty which evidences itself in retail business, is the desire of the

customer to obtain "bargains." This desire, carried further, becomes apparent in the case of procuring something free; that is, any form of getting "something for nothing," whether it be a *bona fide* gift or only a plausible illusion.

Even if we may wish to overlook human "failings," the shrewd merchant only does so when he finds his trade will allow it, or when he discovers other methods of attracting customers whom he cannot hold through unadorned merchandising methods. To be practical and successful, he must decide what class of trade he desires and can get and hold, and what are the simplest, most economical methods he can use to accomplish completely and permanently the desired result.

Except for transient or a very limited class of buyers, the payment for purchases in cash is not generally sought for by either buyer or seller. A common saying is that "credit is the life of trade," but it must be live and not dead credit. When a store is on a cash basis only, it usually advertises low prices as inducements for cash payment. This is also true in the wholesale trade, in which special bargains for cash are often offered; or, what amounts to the same thing, terms, offering a discount for "cash payment" in 10 days or more after shipment, are made to offset the more "easy" credit terms.

This same psychology evidently obtains with retail customers, as shown by the extract previously quoted from the banker's letter, that a majority prefer to pay cash or buy on prevalent terms and so consider the paying of accounts by trade acceptance as another, *less desirable,* form of paying *credit accounts.*

In some cases, if the retail merchant's customers pay him sooner than usual or in a more desirable manner, he has decided that they were entitled to a compensating rate on their bills, to an amount he could afford. The merchant who decides to give a preferential rate for payment by

trade acceptance would find it necessary to adopt some standard plan which will be satisfactory and equitable to both his customer and himself, and be in accord with the discomforts or benefits of each.

Different View as to Inducement Discounts in Retail and Wholesale Trade.—The successful owner, general manager or salesmanager of a retail store never judges his customer's viewpoint by other than the *customer's standard.* His success is built up largely upon knowing what the people want or educating them to want what he has and then giving it to them. The retail credit man must do the same thing to succeed. He can only apply plans or rules of the banker or the wholesaler when he can make them accord with the views of his retail customers, or make their views accord with his plans. Therefore, the application of trade acceptances to the retail trade must be by the yard-stick of the retail customer's mind.

It is fully evident that in all cases, except when the buyer must "accept" or pay cash, the argument or inducement to use a trade acceptance must be such as to appear a sufficient one to the particular buyer, or buyers, upon whom the seller is dependent for his custom, in order to obtain their acquiescence to the new credit terms. A concrete plan is outlined in the following pages as an aid in cases in which an inducement is necessary.

Method Based upon a New York Department Store Plan.—A New York department store having an enormous yearly turnover for cash only has devised a "preferential" for customers who might be considered in a favored class. This class is somewhat similar to the one including a customer of a credit business who paid by trade acceptance, instead of when it pleased him or when he was shamed into doing so, or even was forced to settle, which often happens with open accounts.

In the above-mentioned establishment this favored class consists of their "Deposit-Account" customers, who keep money on deposit with the firm's banking department, on which interest is paid. Early in December of each year a check is sent to each Deposit-Account customer representing 2 per cent of the total of the customer's purchases (less returned goods) for the year. This firm believes that this discount of 2 cents on every dollar of goods bought on Deposit Account is fully justified by the inducement it offers to the shopper to buy all goods possible in their store instead of for cash or on credit elsewhere. Evidently, from the number of such Deposit Accounts and the purchases made thereon, the customers also believe the plan a desirable one. This plan applied to settlement by trade acceptance is as follows.

How the Plan Is Introduced.—To each customer of the firm a letter is addressed similar in tone to the one following, merely modifying the wording to suit the class of people who will receive it and the plan of campaign employed. These letters are sent in advance of, or together with, the first trade acceptance, and read as follows:

Dear Customer:

The Government has requested that all business men settle their account by cash or as soon as possible after receipt of goods. It has also suggested that we ask our customers to do the same.

We prefer not to make any change in our credit terms, which we have made you in the past, as they have been entirely satisfactory to us and, we hope, to you as well.

As you are one of our esteemed customers to whom we have extended our credit privileges, we shall continue to extend them to you, as it is satisfactory for us to do when we get our credit sales acknowledged on the trade-acceptance plan, which the Government has approved.

This consists merely of your counter-signing the trade acceptance attached to each charge statement sent you, when you do not wish to pay by cash or check to our store at the time the

statement is received. This receipt, or trade acceptance, will be collected on the same credit terms as formerly, at the place you may designate, preferably at your bank.

This plan is similar to the former plan of paying but makes it more simple for you and for us and is in accordance with the recommendations and desires of the Government and bankers. We will be glad to give you any further explanation you may desire.

Thanking you for your esteemed patronage in the past, which we will always strive to merit, we remain,

Respectfully yours,

Form of Trade Acceptance Carrying Special Discount.—When sending the trade acceptance to a customer with a statement, an explanatory slip is attached to the acceptance and thereon is noted that accounts paid according to trade-acceptance terms during the year will be totaled up, and a check sent to the customer on December 10th, amounting to a certain percentage on all trade-acceptance purchases.

It has been found that this special cash bonus payment appeals strongly to the average retail buyer, when received "around Christmas time," and that it is looked forward to each year and counted on for special purposes. When purchases run into large amounts or customers are only transient, this is sometimes paid periodically or deducted from each trade acceptance. It has been found to be equally possible to pay the premium at other seasons, as for instance at Easter-time, Summer or other holiday vacation season, or when payments by trade acceptance reach any round sum designated.

Bookkeeping Procedure on Discount Plan.—The bookkeeping detail in paying customers the special discount entails merely a casting-up of the account of the customer at fixed periods to ascertain the total payment by trade acceptance. If it is desired not to keep customers' accounts

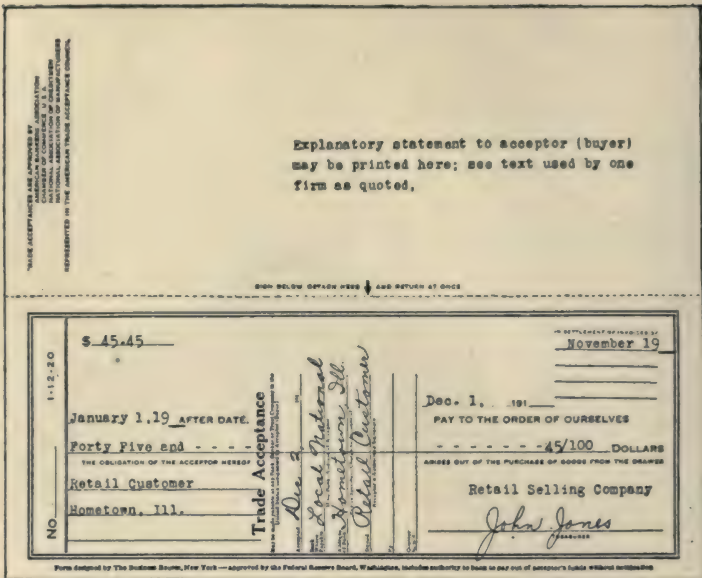
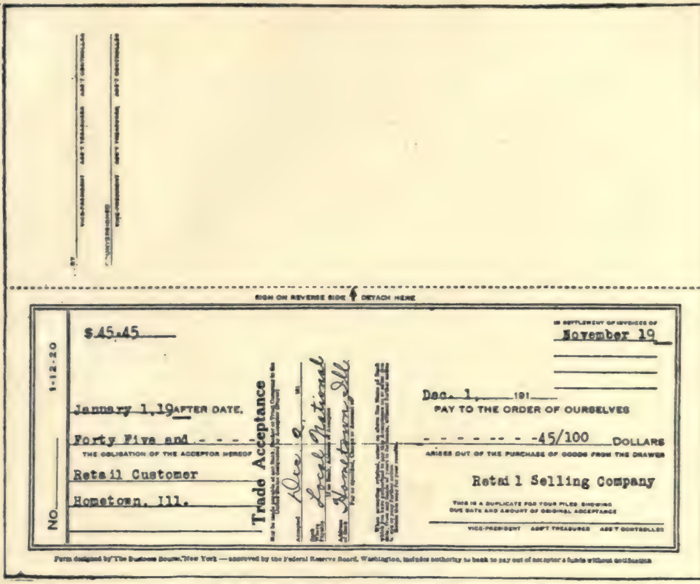


Figure 41. Form of Trade Acceptance Made Out by Retailer and Accepted by Consumer

paid by acceptance separately in the general books, a special memo. account covering acceptances may be kept and, when the acceptances are discounted or paid, entry may be made under the name of the customer, or carbons kept of all acceptances, made with the Standard Form (Figure 41) of acceptance, and the premium figured by adding up such carbons after the corresponding originals are paid.

Then the check to cover the premium, according to the agreed percentage of discount, is figured and drawn (usually in special Christmas style), and this discount is charged to the discount account or "trade-acceptance expense," or other appropriate account.

Retail Trade Acceptance Form and Explanation.—An explanatory memo. is attached to the acceptance which is


SIGN ON REVERSE SIDE DETACH HERE

1-12-20

NO.

$45.45

January 1, 19 AFTER DATE,

Forty Five and - - - - - - - - - - - - -45/100 DOLLARS

THE OBLIGATION OF THE ACCEPTOR HEREOF ARISES OUT OF THE PURCHASE OF GOODS FROM THE DRAWER

Retail Customer

Hometown, Ill.

Trade Acceptance

Dec. 2,

Local National

Hometown, Ill.

IN SETTLEMENT OF INVOICES OF

November 19

Dec. 1, 191

PAY TO THE ORDER OF OURSELVES

Retail Selling Company

THIS IS A DUPLICATE FOR YOUR FILES SHOWING DUE DATE AND AMOUNT OF ORIGINAL ACCEPTANCE

VICE-PRESIDENT ASS'T TREASURER ASS'T CONTROLLER

Form designed by The Business Bourse, New York — approved by the Federal Reserve Board, Washington, includes authority to bank to pay out of acceptor's funds without notification

FIGURE 41A. REVERSE OF FIGURE 41

sent to the customer, as shown in Figure 41, worded similarly to the following:

HELP THE GOVERNMENT'S FINANCIAL PLAN!
2% TO YOU!

CHRISTMAS CREDIT COUPON

Each trade-acceptance customer (one who pays accounts on our trade-acceptance plan as outlined by the Government) will receive from us on December 10th next a check on a national bank for an amount equal to 2 per cent on all his or her purchases represented by these coupons and made since the last check was sent. When received, such premium check may be cashed at any bank or at our store. If you desire to be eligible for these benefits, to be in our preferred trade-acceptance customer class, please sign the attached trade acceptance as indi-

cated and return it promptly to us, unless you prefer to pay cash or remit for this bill when received.

Get the trade acceptance habit; sign below and save this Christmas Credit Coupon; it is valuable to you.

We thank you for your esteemed patronage and will hope to merit a continuance of it.

THE RETAIL SELLING CO.,

JOHN JONES, President
[or Treasurer].

IMPORTANT: After signing trade acceptance below, tear it off at dotted line, and send it to us at once. Save this coupon, which bears upon the reverse side copy of acceptance you have signed; it is your receipt and good for above rebate on acceptances signed and paid by you.

Customer please sign on red lines below, detach here and return to us at once.

Various Modifications for Different Cases.—Every trade, probably every locality (and occasionally an individual dealer) may have to modify its standard plan according to the trade customs or customers. For the seller, the first essential to success has been found to be for him to analyze carefully and put himself in accord with his customers' point of view and to so adjust his plan of putting out the trade acceptance that it will attain the maximum of success, not only at the start, but in the future.

Every customer who "accepts" helps to influence others to do so, and it depends upon the patience and perseverance of the merchant what success attends his campaign and how soon he attains it. That perseverance plays a large part in this plan is indicated by the following opinion of an officer of a bank who has had practical experience in watching the handling of retail accounts with the trade acceptance in a town of 50,000 inhabitants:

After sending out the trade acceptances with the monthly invoices, it is necessary for the merchant to show considerable per-

sistence, and when customers pay no attention to his request for the return of the trade acceptance, the merchant must politely but persistently insist that his terms of credit are now based on trade acceptances and that it will be necessary for the customer to "accept" and return same to him.

Authorities' Attitude as to Its Advantages to Retailer.—Authorities seem to agree that the trade acceptance in retail credits is legal and highly desirable from a financial and solid merchandising point of view; and no retailer who has been interviewed on the subject but agrees that if he could get all his customers to pay by cash at once or on a certain date (or be obliged to make arrangement with him for an extension of time), his business would be on a much safer and more profitable basis. The men interviewed say, in other words, that the retail store would actually become a business enterprise instead of a gamble, dependent on the whim or convenience of the credit buyer.

Under such circumstances the advocates say that "the merchant could then expand his energy and resources in improving and extending his legitimate business of merchandising and service to his customer, rather than being obliged to act as banker to some who, although they might be fully entitled to credit on legitimate lines, are not entitled to use the merchant's money and business as a pawn or juggler's ball, in their careless or ignorant handling of their own financial affairs."

Careful Consumers Welcome Acceptance Plan.—It appears that many careful consumers are glad to have the privilege of a systematic method of paying retail credit accounts, or, at least, that these accounts are brought regularly to their attention for payment, and that they are allowed, when necessary, to request a definite extension of terms or of time, if acceptance can not be conveniently met when due. This appears to help the prudent and honest ultimate consumer to regulate and adjust his pur-

chases to his needs and income, and robs the credit system (which is so essential) of its many dangers and discouragements.

Status of Trade Acceptance in Retail Trade.—Investigation indicates that the use of trade acceptances in retail trade at the present time is very limited. They are being successfully used in certain localities and trade in the United States (as they are in European countries). There seems to be little question that if a retailer carefully chooses the plan and procedure best suited to his customers and persistently applies it, he is reasonably sure of ultimate success and of adequate benefits.

It appears that by careful consideration of various practical plans, most retail merchants (preferably by groups of merchants) can modify and adapt to their needs the trade-acceptance procedure as heretofore outlined, and make it promptly successful in their business.

CHAPTER XXIII

THE ULTIMATE CONSUMER[1]

The Necessity of Credit to the Consumer.—The ultimate consumer buys more and pays more than any other class of buyer. The "raw materials" producer buys only enough materials and labor to produce the unfinished product; the manufacturer buys only the raw stock and his labor to finish the goods; the jobber buys the finished goods at wholesale; the retailer buys the goods at a still higher cost. But the consumer buys at the retail price which includes the profit each one has made and also the marketing and administration expense of each handler of the goods, and he, therefore, has the final and biggest bill to pay by cash or on credit.

It is, therefore, easily seen how important the purchases and payments of the consuming public must be. The power of their cash purchases is very great, but their purchases on credit are even more extensive. It is found that the total purchased on credit by the consumer is much greater than that for cash. This is so for many good and logical reasons, including the inconvenience, if not impossibility, of carrying ready cash to cover all small and large purchases. This inconvenience is brought about by reason of most persons receiving their wages, or income, periodically at certain seasons of the year and carrying on hand insufficient cash (capital) to always "pay as they go."

[1] This chapter is designed to appeal to the average consumer or retail buyer and to present the trade acceptance in an attractive light. Retailers use it in whole or in part in pamphlet form to induce their customers to use acceptances.

This being conceded, we look upon credit as a great convenience and, in certain cases, as a necessity, and we must consider how it can be carried to the best advantage for all.

What Is Good for One Is Good for All.—By those best versed in business facts and figures it is conceded that usually a trade, community, nation, or the world prospers best when all are prosperous. Hence we will take it for granted that the consumer who has the standing to ask and secure credit knows and appreciates this fundamental business fact and wishes to help in any way possible to make successful those from whom he asks and receives credit. However, the consumer will also want to know that he is not sacrificing any of his own rights or benefits for the sake of the one from whom he buys. If he feels he has to pay more for his goods, or must accept less desirable merchandise, or is not accorded a fair amount of credit or the necessary (reasonable) time in which to pay for his purchases, he is well within his rights to object to any plan which would work such results. We shall herein make careful examination to ascertain whether there are any disadvantages to the credit buyer in having credit given him by the merchant on the open-charge account or in the plan of credit based on payment by trade acceptance.

The Other Fellow's Benefit and Ours.—Although not always as interesting as our own immediate affairs and benefits, yet the benefits of another, when they tend to return to oneself, are worth careful consideration and study to learn how we may profit thereby. So it will be interesting and valuable to the consumer to know what benefits accrue to the merchant who gives trade-acceptance credit instead of open charge-account credit, and how these benefits result to the advantage of the consumer who buys on trade-acceptance credit.

Credit.—We shall not start this discussion of credit by giving the dictionary definition of credit, which all entitled to get it should know, nor shall we give an involved explanation, such as a banker or credit man might do, because it would be perfectly proper for the consumer to say: "Oh, that kind of credit is for the financier! All I ask is to be trusted until the first of the month (or longer) and have a bill showing what I have bought on credit so I can pay it." Very well: that is the kind of credit by trade acceptance that we shall explain.

The principles back of credit are very interesting, as every one appreciates who has ever studied them. They are simple, too—just *confidence* and *time,* the principal element being *confidence;* in fact, the word credit comes from the Latin *credo,* to believe. So when a merchant "gives you credit" he also places *credence,* or believes, in you; he believes that you will pay him for the goods he trusts you with. You also know that those who do not pay can get no more credit; they have ruined their credit; they must hereafter pay cash to those who know of their forfeiture of the right to credit.

A Merchant Guards His Credit Carefully.—Almost any business man acknowledges that his credit is one of his most valuable assets, which he guards with the utmost jealousy and care. His credit, like Cæsar's wife, must be above suspicion. "Well," the consumer might say, "what has this to do with my wanting to buy something and have it charged?" Merely that we are studying how the retail customer can get it charged the most readily and, at the same time, in a manner that allows the merchant charging it to give him a generous amount of credit, as well as a price which is not higher on account of giving *time.*

The Consumer Wants Credit on as Near a Cash Basis as Possible.—No one argues that it is better to "charge it" than to pay cash, when cash payment is feasible and con-

venient; "short debts make long friends" and cash is the shortest plan of settling accounts. Every consumer knows that a bargain sale or "cash store" invariably features that "you get more for your money" on cash terms, which is, or should be, true, because all lost motion and lost money are eliminated from the transaction. Therefore, the wise retail credit buyer realizes that cash terms are usually cheapest for him and buys for cash whenever he can.

But we are talking of *credit* buying, and the only reason for pointing out the benefits of *cash* buying is to show the advantage of buying on as *near a cash plan as possible*. It is here that the benefits by trade-acceptance credit can be shown. It may be asked: "Is trade-acceptance credit considered better by the merchant than open-charge account, and why?"

Merchants' Costs and Expenses Affect Consumers.—Every one realizes that when a merchant sells goods, he must include in the price the cost of the goods plus all his expenses and losses and a profit, or he is bound to "fail" as soon as he has used up his capital. Consequently, a consumer realizes that if a merchant pays high for his goods, or has high collection or other expenses or big losses on bad debts, the consumer, who buys from him and *pays his bills* must pay for all of these. This is the reason for buying, often at considerable inconvenience, at the cash stores. which advertise "we buy and sell for cash."

Well! here we are talking *cash* when we started to talk *credit*, but again "there's a reason." The credit consumer should try to get as much benefit from cash buying as possible. One big benefit will be in buying from the merchant who himself buys his goods in the cheapest market for cash. But the consumer might go deeper and ask: "How can a man buy for cash when he sells the goods to the consumer on charge accounts and does not get his

money for one, two or more months' time?" Except by the richest stores with almost unlimited capital, it cannot be done on the old charge system.

But this is not all. Few consumers realize that they themselves are standing a lot of other losses through this inefficient method of conducting business. Some jobbers act on the theory that if they can get a merchant sufficiently in their debt, they can charge prices or furnish brands of goods that the merchant would not accept if he were free to buy where he could do the best. Therefore, if a merchant is handicapped for cash capital or has to ask for long-time credits, the goods he sells and the prices he gets for them may not be advantageous to the consumer, who will again have to shoulder the load. Consequently it is evident that the consumer's benefits depend upon those of the merchants from whom he buys.

How Can the Consumer Help the Merchant to Help Him?—But a consumer might inquire: "Am I expected to support the merchant?" and the answer would be: "Yes, if you buy from him." Another question might be: "Am I expected to pay him cash, at great inconvenience to myself, so he can buy for cash?" And the answer is, cash payment is always best for *all concerned,* but when not reasonably possible, pay in such a way as to give both consumer and merchant what they need, the *highest grade of credit.* "How can this be done?" Pay by trade acceptance. Read how.

When the merchant has the highest credit, he can buy the best goods at the lowest prices by giving his trade acceptance to pay for them, and his customers will benefit accordingly. That is a good reason to help *his credit* all *you can.* But, better still, if the merchant's credit is high with *his banker,* he can borrow money from him and pay *cash* for his purchases from the wholesaler and get still better terms and bargains to pass on to his customers.

This condition is true of the big department stores which buy for cash in large quantity.

But the consumer might ask: "What have I and the trade acceptance to do with a merchant's credit with his banker?" The answer is *Everything!* One of the chief reasons why a bank will not loan freely to a retail merchant is because the banker knows the consumer is sometimes also careless and slow in his payments and the merchant is equally careless in his collections. In other words, if the merchant borrows money from the bank to buy goods with, expecting to sell the goods and collect the money in 60 to 90 days and gives a note to the bank, it is two to one he will not collect enough money to pay the note and will have to ask for more time. Therefore, the merchant cannot borrow freely on his own note. But if he had trade acceptances from 100 of his good customers, he could take them to a banker who knew them or had confidence in the merchant's judgment of customers, and the bank would be more inclined to be liberal in their loans on such "proved accounts," which again would help to build up the merchant's credit and to increase his ability to get cash for purchases.

So it finally appears that if the merchant could get trade acceptances in payment for the goods he sends out on charge account to good customers, he might be able to compete in prices and goods with the big cash buyers. Now we have come to what the consumer has been wanting to know:—

What Is the Retail Trade Acceptance and How Does the Consumer Handle It?—Well, what *is* this retail trade acceptance for paying for credit sales? It is simplicity itself. It is merely a receipt or check-like slip of paper which the consumer signs when buying goods amounting to a certain sum or over, or if the purchases are small periodical items like groceries, when the bill is presented

monthly, semi-monthly, or weekly. By signing a trade acceptance he *merely says* that he has received such goods and expects to pay for them on the regular terms, on the 10th of the month, in 30 days, or according to the terms agreed upon. The merchant, when he presents to his bank a number of these trade-acceptance "receipts" from reputable people, has his word verified that he has sold such goods to such people on such terms. He does not have to argue or tell a long story to the banker, the trade acceptances tell the story and in a language the banker understands: that is, they are negotiable evidence of money owed to the merchant by his customers. The banker readily takes such good acceptances and advances the money, knowing he will be repaid as the accounts of the customers are paid. Simple, isn't it?

As any banker or merchant who understands trade-acceptance procedure can explain, the merchant can make the acceptance, which the customer signs, for any length of time satisfactory to him and within which the customer will be able to pay the acceptance. The acceptance may be made payable at the merchant's store, the customer's house or place of business, or, preferably, at the customer's bank. In the latter case the banker can pay the amount due out of the balance he has on hand in the customer's bank account, just as he would a check. When a customer has a bank account (and all seeking credit should strain every effort to establish themselves as bank depositors), it is, of course, preferable to pay the acceptance through the bank; because, if presented at the place of business, at home, or at the merchant's store, it necessitates having the cash there to meet it. However, this is a matter which each credit customer must plan out according to his individual circumstances.

Coöperate and Benefit.—The lesson is COÖPERATE and BENEFIT accordingly. Get what you want and need by the

most direct and fair methods. If you want credit, get it by convincing the merchant that you will pay your bills as you agree to do. What man or woman seeking to get permanent credit can or wishes to do less? The point is that the new business and world methods say: "Do it out loud; hit from the shoulder; don't pussyfoot." When you get valuable goods on credit, acknowledge it, give a receipt for them as a business man would do, sign a trade acceptance, and "get all the benefits that are coming to you."

CHAPTER XXIV

PUTTING THE TRADE ACCEPTANCE INTO EFFECT THROUGH TRADE ORGANIZATIONS [1]

The Pioneers in Trade-Acceptance Promulgation.—Organization has always been an important factor in success, but we have had in the World War a graphic demonstration of the value, if not of the absolute necessity, of 100 per cent organization and discipline in the attainment of any important campaign. The efficient organizations of the country are no exception to the rule of business success through joint effort. One of the most difficult objects some of them have essayed to attain is the alteration of the credit terms of the country, which have been built up and entrenched by common usage of two generations of business men.

This big subject was first taken up in 1915 by the organization of men who had most to do with the credit usage of the last half century. To the National Association of Credit Men, after promulgation by the Federal Reserve Board and banking system, seems to be conceded the first organized effort to place the trade acceptance in general use and to supplant the almost universal open-account credit system of the country.

The credit men were ably assisted by the bankers of the country, who later came into the movement as an organ-

[1] This chapter quotes the actual experience of many business associations whose members have jointly adopted the use of the trade acceptance. Other organizations may benefit by their examples and opinions.

ization when the trade acceptance was discussed at the Business War Conference at Atlantic City in the fall of 1917. At that time the representatives of the American Bankers' Association, the Chamber of Commerce of the United States, and the National Association of Credit Men appointed committees who later organized themselves as the American Trade-Acceptance Council (later the American Acceptance Council), to explain the acceptance to the manufacturers, jobbers, merchants, and consumers of the entire country.

The activities of these organizations together with the National Association of Manufacturers, covering as they do the Government, the manufacturers, jobbers, retailers, and bankers, have already shown results in the systematic publicity given the subject and the development of various phases of the problems, including the standardization of bank usages and charges for handling the trade acceptance through the banking institutions, as well as the internal mechanism of handling the acceptances themselves in the banks.

Activities of Officials of Banks and Trade Organizations.—Important aspects of the plan were put in the hands of a committee of bankers working under the National Bank Division of the American Bankers' Association, and their plans have resulted beneficially all along the line. Other sections have been successful in other directions. This action by the general association pointed the way for action by the national, state, and local associations of each particular trade or division of trade. Many of the associations and their officers and committees have laid before their members their findings as to the procedure and profit in the adoption of the trade acceptance in their particular field. The secretaries, as well as the highest officers of trade associations, have given unsparingly of their time and energy in investigating the details

of the procedure which apply to the needs of their special trade or organization.

Such data have been carefully disseminated among the members through circulars or speeches at local or general meetings, where the best informed speakers on the subject explained the procedure of acceptances and answered questions propounded by their hearers.

Work by Associations in Educational Campaign.—The quotations from speeches, resolutions, and circulars given hereafter will best illustrate the earnest purpose of these organizations to make clear to their members the results to be expected from this change in credit terms. There have been favorable actions, as well as instances where adverse findings resulted, but an analysis of the latter seems to indicate that the findings resulted from a belief that trade acceptances could not be advantageously adapted to the terms of a particular trade rather than from a disagreement with the soundness of the principle of acceptance payment.

Most Successful Methods of Introduction by Organizations.—It has been found that where it is generally desired by far the most successful method of putting the acceptance into general use is to do so by resolution and agreement of all members of a local or general association. This plan is usually led up to by study of the subject by some member of the association, who arranges a complete plan of procedure and actively advocates the same to all other members.

When an association has an efficient and energetic secretary or other executive officer who studies and pushes the matter systematically, favorable results have ensued more quickly by his handling the subject alone. A committee sometimes has sufficed, but, as is well known, unless the chairman is extremely active, the action will probably be slow and often ineffective.

A State Stove Association Demonstrates an Efficient Plan.—The Empire State Association of Stove Manufacturers showed 100 per cent results in putting the trade acceptance into use with its members, and its plans should be of value for other associations who desire to do likewise. A committee was appointed with full power to act, having an exceptionally efficient chairman, who immediately studied the most practical and successful methods of trade-acceptance procedure. He then passed these results along to the regularly employed secretary of the association, who visited all members and discussed the subject with officers and heads of departments in each firm.

The trade-acceptance committee and the secretary then discussed their particular problems with an expert on the subject of procedure and successful methods. From this conference terms and plans were decided upon and systematically worked out by a statistical organization in a report of about 100 typewritten pages, including forms, plans, terms, and full procedure appropriate to the needs and uses of the business of the members. These complete, practical plans were then presented at a meeting of the members of the association. A resolution was prepared by the committee and offered to the meeting, indorsing the trade-acceptance credit movement and pledging each member to put it in force, wherever feasible, in accordance with plans of the committee.

The meeting authorized the committee to have prepared copies of the full report and to send one to each member firm of the association for the enlightenment and guidance of the officers, managers, and employees of each company, who would come into contact with or have to explain the trade acceptance and its effective handling. By this complete method of handling 100 per cent of the firms of the associations were enabled to install the system without delay. By studying the report, all persons in each firm

were enabled at once to become thoroughly familiar with the procedure adopted by their firm, as well as that of their competitors in the association. From the Standard Forms of trade acceptance and registers, terms, and procedure, worked out in the minutest detail in the report, all members were enabled to proceed along a standard plan and all customers who purchased from any member firm had presented to them the same terms, forms, and procedure.

A Similar Plan Possible for Any Organization.—The foregoing plan is feasible for adoption by all organizations, since they can prepare or have prepared such a report or plans or they can standardize the procedure (while applying terms and detail applicable to their particular trade or locality) by each member using the methods described in this volume. It has been found desirable to use a report or book which covers all possible angles and questions of trade-acceptance form and procedure, rather than miscellaneous treatises which may duplicate or omit some phases of the subject, and in order to avoid the chance of each firm in the organization adopting its individual terms, forms, or interpretations of procedure. When every firm in a trade or locality uses similar plans, the quickest and most satisfactory results are obtained.

To illustrate a method used in 1917 by an influential manufacturers' organization, we quote the following letter addressed to all members by the national secretary:

GENTLEMEN:

Duty as well as self-interest now demands the prompt and unanimous adoption by all industries of the trade acceptance.

The four billion dollars estimated capital "frozen" in open accounts must be mobilized to serve as a credit basis for war-loan purposes, thus fighting inflation.

At a meeting of one of our allied organizations held recently, and at a meeting of one of our local associations, the following year-around terms were adopted by their members:

Two per cent cash on the 10th of the month following date of shipment, or one per cent and 60 days' time for trade acceptance dated the first of the month following date of shipment, or open account 60 days from date of shipment.

The only exception to these terms to be *bona fide* stock orders. The dating allowable on stock orders of furnaces to be July 1st. The dating allowable on stock orders of ranges in January, February and March to be April 1st, and in June, July and August to be September 1st. Salesmen to refer requests for dating to the house.

Trade acceptances to be sent out with monthly statements for the amount of the statement less one per cent, excepting in the case of dated invoices, when the trade acceptance is to be sent with the invoice.

The adoption of these or similar terms for 1918 uniformly throughout the industry will be a distinct service to the Government, and at the same time a great advantage to every manufacturer, resulting as it will in a reduction in bad debts and collection costs, and in substituting for open accounts a form of paper second only to actual currency in its availability for financing.

In order to make the adoption of new terms involving the successful use of the trade acceptance effective January 1st, 1918, throughout the country, it is strongly recommended that each local association hold an immediate special meeting for the purpose of recommending terms for adoption by their members.

It must be apparent to manufacturers that the adoption of the terms is perhaps less than half the battle. Putting them into effect in such a manner as to achieve as nearly 100 per cent results as possible, is the larger half of the proposition.

In consideration of this fact the Trade Acceptance Committee of one of the local associations is having a special report prepared by ——— of New York City, a copy of which will shortly be sent to each of its members.

It will be in two sections. The first section will consist of a report on their national trade-acceptance investigation. The second section will consist of recommendations for our industry, including copy for the printer for the best form of trade acceptance, the best form for office records (both for the manufacturer sending out the trade acceptance and for the dealer returning the trade acceptance), the best letters to salesmen and

customers, the best printed matter to use, etc. It will also include guidance in educating the retailer to the use of the trade acceptance in his own business.

Signed ——— ———,
National Secretary.

Comments by Officers of Organizations.—An indication is given of the operation of this coöperation by an association in standardizing the source and plans of putting the trade acceptance in effect with its members by extracts from letters, which are quoted for the information of other secretaries, officers, or heads of committees, who may be considering concerted action.

Several months ago our Association adopted trade acceptances which are proving very satisfactory. However, much educational work is needed with the smaller retail merchants before they will readily accept the plan. Our members are meeting with encouragement in their efforts and we confidently predict that trade acceptances will eventually become the universal form of payment by retail merchants.

There are two ways in which a secretary can get the subject before his members: by literature and by addresses at the association meetings. The latter will produce quicker results because so many good pamphlets coming to a business man's desk in printed form are never read.

I hear from day to day expressions of appreciation of your presentation of this subject at our annual meeting. I am confident that the development of the subject as you have handled it is largely responsible for so many members of this Association putting the trade acceptance into use this year.

So far as we know the various local secretaries have become very much interested in your trade acceptance plan.

We have consulted the secretary of the Empire Association, who informs us that all of its members are using and pushing this matter just as hard as they can, and we are of the opinion that the good work is being furthered by other Associations in like manner.

It is much more difficult for an individual manufacturer to introduce the trade acceptance than to do so in conjunction with his competitors.

It is also true that to achieve the greatest degree of success in the introduction of the trade acceptance the competitors in question should follow the same or at least a similar plan.

Furthermore, I am sure that by coöperative plans, an association will save in time and trouble much more than it costs them in dollars in arriving at a uniform method as well as working out a much more effective plan in this manner.

First National Associations to Discuss the Subject.—The following quotation from *Progress in the Development of Trade Acceptance*, by Beverly D. Harris, Vice-President of the National City Bank of New York, seems to be one of the earliest reports of action on the trade acceptance by an association.

It was my good fortune to have been present at the conference of the Banking and Currency Committee of the National Association of Credit Men, at the La Salle Hotel in Chicago, in January, 1916, on which occasion the introduction of the trade acceptance was the principal topic on the program. The meeting was representative of all lines of business, including the banking interests and representatives of the Federal Reserve Banks and the Federal Reserve Board, those in attendance representing collectively a wide range of experience and expert knowledge of the conditions and problems of trade, credit, and banking. I carried away the impression that that occasion was destined to be of great subsequent importance to the future of the trade acceptance movement.

The following is an extract from 1917 *Bulletin* of the Toy Manufacturers of the United States of America:

The following is a summary of the important features of the speeches and discussions of the trade acceptance at the annual meeting of the Toy Manufacturers of the United States of America.

The introduction of the trade acceptance in the toy industry will depend largely on the coöperation of the members. It will

be taken up much more readily if many manufacturers use it than would be the case if only a few try it.

Detailed instructions in regard to the use of the trade acceptance have been omitted because this matter is given in the publication by ——— and members who are interested in putting the trade acceptance into effect should secure a copy.

We quote the following reports on activities of associations covering trade acceptances. The first extract quoted is from a letter of an optical association written in 1917:

It seems to us that if the trade acceptance is introduced successfully it will be done either by the action of the different markets as a whole, or through the influence of the various trade associations. The acceptance has been adopted as a term of sale by both the New York Association of Optical Jobbers and the Boston Optical Jobbers' Association, with good results. The Manufacturing Opticians' Association has highly endorsed the trade acceptance and is urging its use upon its members, several of whom have already adopted it in their business.

The New York Automobile Accessory Jobbers' Association is actively urging the trade acceptance and many members report that the trade acceptance is gaining a strong position in the automobile and automobile accessory lines.

The Secretary of the Electrical Supply Jobbers' Association is laying before the members of his association a complete plan of procedure in a report on the installation and operation of the trade acceptance with the electrical trade, and a number have already adopted it through that report.

The acceptance has been in use by members of the California Electrical Contractors' and Dealers' Association, and results obtained are so satisfactory that its use is being urged in this line all over the country.

The stove associations early indorsed acceptances and treated them prominently in their meeting. Following is quoted an extract from the address of the President of the National Association of Stove Manufacturers delivered at their annual meeting early in 1917:

Statisticians and students of commercial economics warn us against extended credits and long terms. This warning has special significance and force during a time of unsettled conditions such as we are approaching, and, especially, furnace manufacturers will do well to seriously consider the necessity for shorter terms and stricter adherence to lines of safety.

The use of trade acceptances is becoming more general and has the support of banking institutions. They work no hardship on the buyer and are of advantage to the seller. They eliminate much of the haphazard lines of least resistance of credit extensions.

At their annual meeting May 9, 1918, the following resolution was adopted:

Resolved, that the National Association of Stove Manufacturers earnestly endorses the closing of open accounts by trade acceptance on the part of producers and distributors generally and on the part of its members particularly.

National Association of Credit Men's Indorsement.—Favorable discussion of trade acceptances was carried on at the annual meeting of the National Association of Credit Men in Kansas City in June, 1917, and the Association passed the following resolution:

Resolved, that the association approves most heartily and completely the trade acceptance as an instrument more adaptable through its liquid character than the open account to protect and serve in emergencies, and offering a means of eliminating many of the evils which have arisen through the rigidity and lack of adaptability of the open-account system.

Since that time other resolutions have been passed by this body indorsing acceptances, including the following:

The officers and directors of the National Association of Credit Men, in annual meeting assembled, view with deep interest a growing tendency toward the substitution of trade acceptances for open accounts as a form of commercial credit, and record their belief that trade acceptances present conveniences and economies which should appeal to the encouragement and support of commercial credit granters.

Resolved, that the occasion of the 31st Annual Convention be taken again to place the National Association of Credit Men clearly and emphatically on record as favoring the steady and rapid substitution of the so-called "trade acceptance" for the open account and to commit the Association to earnest efforts to prevail upon the members each to do his part in assisting the Federal Reserve Bank in building upon this class of paper which meets so precisely the specifications of the Reserve Act for rediscountable credit instruments, and which, at the same time, puts commercial obligations in a form definite in amount and unquestionably negotiable.

American Trade Acceptance Council's Resolutions.— The American Trade Acceptance Council at its first meeting, through its Resolutions Committee, adopted comprehensive resolutions, urging business men of every type to give their attention to the value of the trade acceptance to them, and reading, in part, as follows:

Whereas, first, the Federal Reserve Act affords a means under which the banking system of the United States may be improved and strengthened, and the demands of commerce and industry may be adequately cared for at all times, providing the banks and business interests will so shape their affairs to avail themselves of the privileges and benefits of the new system;

After careful study and investigation and mature deliberation, the United States Chamber of Commerce, the American Bankers' Association, and the National Association of Credit Men have concluded that the nation-wide use of the trade acceptance will be a means of strengthening the financial system and protecting commerce and industry. They have accordingly appointed a committee from among their members known as the American Trade Acceptance Council, whose duty it is to conduct a nation-wide movement to encourage the use of the trade acceptance by business people and bankers.

The Cleveland credit men were pioneers in acceptance study, resolving that:

The Committee on Banking and Currency of the Cleveland Association of Credit Men have decided for the present, at least,

to make the adoption of trade acceptances their main subject of study and effort, believing it offers great possibilities and usefulness for the country by mobilizing a vast amount of open accounts and making them a bankable asset.

Action to aid the trade-acceptance movement was urged on the National Paint, Oil and Varnish Association at the opening of its 30th annual convention in Chicago on October 8, 1917, by Howard Elting, President of the Association, who said:

I should like to see this large and influential body take some definite action on the question of trade acceptances. We can well afford to be the first large trade organization to put this practice into actual operation among our customers. This custom helps the seller; helps the buyer. It creates a better class of accounts; insures more prompt attention to payments when due, to say nothing of the development of a keener sense of obligation.

At the convention of the National Association of Garment Makers on December 5, 1917, it was decided that trade acceptances possessed marked advantages for the manufacturers and also some advantages for the retailer, and that their use should be encouraged.

In December, 1917, the Toy Manufacturers of the United States of America passed the following resolution:

Whereas: The Toy Manufacturers of the United States of America in Convention assembled, looking forward to the necessity of more liquid and increased working capital in the toy trade, in conjunction with the needs of the Government, have considered the merits and demerits of the trade acceptance, and

Whereas: The general adoption of the trade acceptance to cover open credits has many points of business advantage to both buyer and seller, therefore be it hereby

Resolved: That we favor their general adoption in trade in view of the necessity of keeping liquid the credits of the manufacturers and retailers, and in this way greatly to facilitate the ability of the banks and the Government to adequately finance the business of the country in addition to the war needs.

The Chairman of the Trade Acceptance Committee of the National Wholesale Grocers' Association stated as follows:

At a meeting of the executive committee of the National Wholesale Grocers' Association held in Washington, February, 1918, the Committee on Trade Acceptances was asked to frame a resolution expressing the general attitude of the wholesale grocer on the subject. The resolution submitted received the unanimous indorsement of your executive committee, as follows:

"Whereas, We appreciate the advantages of the trade acceptance in certain lines of business and its general desirability from a banking standpoint; and

"Whereas, The wholesale grocery business has advanced to the point where it is conducted on a short term basis; and

"Whereas, The adoption of the trade acceptance in the grocery trade would have a tendency to lengthen terms and increase credit risks; therefore be it

"Resolved, By the Executive Committee of the National Wholesale Grocers' Association of the United States, that the general adoption of the trade acceptance in the grocery trade, under prevailing grocery-trade conditions, would really be a step backward."

The Raw Silk Trade Council passed a resolution that

on and after July 1, 1918, all raw silk except for transaction based upon bankers' letter of credit or the drawing of foreign drafts direct upon the buyer, shall be sold, or contract of sale made with buyers, without any exception whatsoever, upon terms of cash settlement, prompt or within 10 days, or trade acceptance, if other than cash terms are agreed upon. Such trade acceptances are to be given by the buyer to the seller within not later than 30 days from date of invoice. All trade acceptances shall be made payable at a bank, located preferably at a free or discretionary point, otherwise the cost of collection is to be charged to and paid by the acceptor.

A highly important action was taken on June 8, 1918, at a meeting of a committee, appointed on May 4th, of the National Association of Cotton Manufacturers, representing spinners, cotton shippers, and bankers. Governor

Harding of the Federal Reserve Board was present at the conference. A resolution was unanimously adopted, recommending

That in addition to present facilities, the bankers' acceptance and the trade acceptance be used whenever practicable and as far as possible in financing next season's cotton crop.

The Lumbermen's Association of Texas, at a convention held at Houston, unanimously adopted the following resolution:

Resolved, That the Lumbermen's Association of Texas, desiring to coöperate in every way with the aims of our Government, hereby indorses the adoption both by manufacturers and retailers of the use of trade acceptances.

The Louisville Hardwood Club members went on record as indorsing the use of trade acceptances, agreeing that all members would use them in their dealings. The St. Louis Material Dealers' Association sent out a pamphlet on the trade acceptance and a letter to the trade giving the following terms of sale as adopted by the association:

Two per cent for cash payment on or before the 15th of the month following date of purchase;

If the 2 per cent cash discount is not taken advantage of, as outlined above, a 30-day trade acceptance is to be given not later than the 10th of the month following date of invoice. This paper will carry a special acceptance discount of 1 per cent if paid at maturity.

The Lumbermen's Club of Memphis, with a membership of more than 200 hardwood lumber manufacturers and distributors, adopted the trade acceptance; and the American Hardware Manufacturers' Association authorized its executive committee to draft terms of sale embodying the trade acceptance.

The following resolution was adopted at a convention of the New York State Bankers' Association, relative to the acceptance:

Whereas: Realizing the importance at this time of utilizing the commercial credit of the country to the fullest possible extent and believing this can be accomplished very largely by the universal use of the trade acceptance in the settlement of obligations arising out of commercial transactions; therefore, be it

Resolved, That the New York State Bankers' Association, in order to properly encourage the use of the trade acceptance, recommends that each member bank pledge its support to the promotion of the use of this instrument in every way possible; and be it further

Resolved, That copies of these resolutions be forwarded to each member bank.

Many other bankers' associations have adopted resolutions favoring the use of acceptances. The Executive Committee of the Savings Bank Section of the American Bankers' Association adopted the following resolution:

Resolved, That the Executive Committee of the Savings Bank Section urges investments of savings banks in bankers' acceptances and trade acceptances endorsed by a bank, banking association, or trust company, up to 20 per cent of the amount of assets less available funds and urges the passage of laws permitting such investment by savings banks in all states where restrictions are placed upon savings-bank investments.

A special committee report of the Chamber of Commerce of New York read as follows:

A new step of importance to the development of the Federal Reserve System will be the adoption by merchants of the method of settling accounts by trade acceptances.

Your Committee desires to give its approval to the principle involved in this method of settling accounts between sellers and buyers. It believes that merchants throughout the country should be encouraged in every way to study the question of trade acceptances and to bring the matter to the attention of their customers. The introduction of new methods of business of this description requires time and patience in order that those adopting them may become thoroughly familiar with their merits and with the benefits to be derived therefrom.

[Signed]

FRANK A. VANDERLIP, President National City Bank.
SAMUEL SACHS, Goldman, Sachs & Co.
GEORGE F. BAKER, Vice-President First National Bank.
ALBERT H. WIGGIN, Chairman of the Board, Chase National Bank.
JAMES S. ALEXANDER, President National Bank of Commerce.
WILLIAM WOODWARD, President Hanover National Bank.
GEORGE B. CORTELYOU, President Consolidated Gas Co.

The National Association of Manufacturers passed resolutions favoring the use of trade acceptances on May 23rd, 1918. They read as follows:

Resolved, That the National Association of Manufacturers in convention assembled not only indorses the able report by the committee on trade acceptances, but recommends the wider adoption and wherever possible the general use of trade acceptances by manufacturers throughout the United States in substitution for the open book account system.

Indorsement in War Convention of Credit Men.—The temper of the prominent credit men, bankers, and business men of the country towards the adoption of the trade acceptance was expressed in speeches and resolutions at a notable meeting of the National Association of Credit Men held in Chicago in June, 1918. Resolutions, adopted unanimously, included the following:

Resolved, That the National Association of Credit Men continue to exert its power to bring about a better understanding of the trade acceptance and to advise so far as may be its use in the various lines of trade as contemplated in the Federal Reserve Act as interpreted by the Federal Reserve Board.

Resolved, That this Convention give its cordial approval to the officers and directors of the association in joining in the action which resulted in the formation of the American Trade Acceptance Council, believing that through the coöperation of the large national organizations, representative of every phase of business, comprised within the council, the strongest possible influence is being placed behind the movement to substitute the acceptance for the open account.

The following resolution was adopted in the convention of June, 1919:

Resolved, That the National Association of Credit Men hereby reaffirms the action of former conventions in approving the principles of the trade acceptance as a desirable credit instrument for the ordinary commercial transactions of the nation, believing that the trade acceptance is superior to the open-book account, that it is a logical development of the Federal Reserve Act in the emphasis and dignity it gives to commercial paper as a national asset, and that it will tend to decrease trade abuses, give greater liquidity to capital, and therefore, should be known and used generally in mercantile credits.

Attitude of Associations and Members.—Many other conventions of credit men have since passed resolutions or adopted plans to further the trade-acceptance movement and it would appear, therefore, that those associations, composed of men who are trained in credit and general business affairs, have indorsed the trade-acceptance principles and adopted them wherever practical in their own sphere of trade.

The success of the movement may be assured, or otherwise, according to the unanimity and force with which the associations and their members indorse and adopt, or reject, the use of the acceptance, and it therefore seems of importance that all those in control of any organization of business men, as well as its members, should study and decide upon the attitude they will adopt towards this movement.

Agreement Between Associations and the Sherman Law.—That there is no legal objection to the adoption of standard trade-acceptance terms by an association seems to be answered in the following expressions of opinions. The first is a statement made by a deputy governor of a Federal Reserve Bank.

It would seem to be perfectly proper for any manufacturer or group of manufacturers, in making their terms, to give their

customers the option of a cash discount or premium for immediate payment or, if they desire credit, to restrict them to giving a trade acceptance rather than an open-book account and it would undoubtedly result in developing the use of trade acceptance, which is now so well recognized as being preferable to the open-book account.

The following is a statement made by an expert in trade-acceptance law, who says:

Attorneys advise that the substitution of trade acceptances for open accounts and the establishment of uniform and better terms of credit where goods are paid for with trade acceptances would, in their opinion, tend to promote rather than restrain interstate trade, and the result would be beneficial; but even were the contrary true, the effect of such an organized effort for change of methods would only have an indirect bearing upon interstate trade and commerce and would not, in any event, be in violation of the Sherman Act.

CHAPTER XXV

POINT OF VIEW OF BUYERS WHO HESITATE TO "ACCEPT"; WITH BRIEF ANSWERS THERETO

Influencing the Buyer to Use Trade Acceptances.—A good salesman always seeks to know the customer's attitude of mind toward his goods before he makes his approach. It will be found that among some buyers there is a prejudice in favor of continuing the old open-account system, which may be accounted for by various explanations. The first prejudice is found to be a natural dislike to change, and this may be overcome by a candid explanation of the new system and, of course, by pointing out to the buyer wherein he will be benefited by the change.

Influence is often brought to bear, through the efforts of the salesmen in explaining these matters, by stating that it is the desire of the house to make this change, and that they will show all possible favors including prompt shipment, etc., to their customers who coöperate, not only on account of the benefit it will be to the buyer and seller, but also to the business of the country in general.

It is explained that this is especially desirable when conditions of the country have been upset by large expenditures and the incidental straining of credits, and that it is the belief of the Government at Washington, expressed through the Federal Reserve Board, and also that of the banks, and associations of credit men and of others able to judge the best methods of mobilizing the country's credits in the most liquid form, that through the adop-

tion of the acceptance to cover credit transactions, safety and absence of money panics can be best assured.

The attention of the buyer is directed to the fact that this method is being very highly spoken of and written about in books, magazines, newspapers, and periodicals. One of the most influential financial digests and reports advises all merchants as follows: "Make use of the trade acceptance as far as possible."

Stereotyped Objections to the Use of Trade Acceptances.—"I don't understand the plan" is a frequent argument set forth, and the seller's understanding of the subject and his ability to present it attractively is the power which will either cause the buyer to join the trade-acceptance movement or make him stay out. When it is the first time the buyer has been asked to accept, the pioneer blazing of the trail is more difficult, but this situation is becoming less frequent as additional firms put out the trade acceptance and it becomes a common business custom in this country, as it is abroad.

"Other sellers do not require it" is another objection. When an earnest effort is not made to convert each buyer individually, old or new, an unwilling buyer tells all competitors the same story. Therefore, to succeed it has been found necessary to win over each objector by patient effort. It is found that the buyer often thinks, if he does not say so, that he can't see where he is to derive his benefit from "accepting." The answer to the query as to where the buyer benefits is discussed more fully in other chapters.

An objection made to signing a trade acceptance by one who is unfamiliar with this method of paying bills often is: "I do not like to sign a note." Care has to be taken that the trade acceptance is not *presented* like a note and does not have the *appearance* of one.

The brief answer made to such an objection is that it

is evident the trade acceptance is not a note of the buyer, for the reason that he does not make it or sign it; neither is it a note of the seller. In fact, it is an entirely different kind of paper than either a note or a check, and is clearly in the class of the time bill or time draft, although it differs from the usual form of sight draft or "draft with bill of lading attached," in that it is no reflection on the buyer's credit, in fact, rather the reverse, since it is the highest grade of credit paper. It cannot be renewed like a note, nor can it properly pay any but a current merchandise obligation. It does not curtail time like a sight draft, but is purely an instrument to extend credit on time.

A successful method is to create the impression in the mind of the buyer, who is to accept, that the trade acceptance is merely an acknowledgment by him that he has received the invoice (if not the goods) sent him by the seller, and finding this invoice to be correct, including terms, he accepts and will pay for the goods, according to the stated terms at his bank (which will pay the acceptance), or at his place of business, if he prefers and so designates.

Often buyers ask "How can I tell when I can pay?" It is made clear to them that the correct time to answer that question is when the purchase is made, since many failures are caused by lack of just such judgment or foresight. Also that every help and method to make more exact the buyer's knowledge of what he will have to pay and when he should pay it are of inestimable value to him. Furthermore, that the buyer *can* judge is shown by the fact that most business men pay their rent or taxes and insurance *when* due.

It is explained that every buyer appreciates that he must meet *notes* and arranges his finances accordingly. Acceptances extend this field of preconsideration of debts and means of paying them, which helps the business education as well as the standing of the buyer. Sellers take care to

make the buyer feel that he is not dealing with one who will exact the "pound of flesh" if, for some good and sufficient reason, payment is not forthcoming. Methods of helping the buyer in such a case are explained in other chapters.

The buyer says, "There is no way to tell when I shall get my money, so I can't tell when I can pay." He is made to understand that his customer is a buyer (and maybe again a seller) and that both he and his customer can exercise the same foresight used by those "higher up." If they only realize the necessity for doing so, it will be to the ultimate benefit of all alike. The buyer can ask his customers to sign trade acceptances, or pay when their bills are due, which the Government, credit associations, and banks recommend to all as a business duty.

An incentive and *excuse* to collect more promptly from his customers has been found of great advantage to the buyer. Prompt collections are the life of trade from top to bottom. The buyer can be shown that this objection is a hindrance and not a help to him, and that it will be better for him to borrow from the banks, forehandedly, than "stand off" the seller.

Importance of Watching Turnover.—One of the fundamental reasons of success of the houses that buy for cash, such as the chain stores, is the quick turnover of *all stock* through careful pre-judgment of immediate needs and markets and the buying accordingly. It is demonstrated to the buyer that if he can improve his turnover through equally careful buying (induced by the knowledge that acceptances *must be paid when due,* rather than *when convenient*), he is employing one of the most successful methods of such cash houses *in his business* and should benefit equally with them through its use.

Other Queries of the Buyer.—Sometimes a buyer will ask: "Why does your firm not desire to give me credit?

Is my standing not satisfactory to you?" This is easily explained by drawing to his attention that you are giving him credit for a definite length of time and that on receipt of the accepted trade acceptance a receipt for charge will be sent him in full: payment being made on the trade acceptance at its maturity, according to the terms of the order.

Also, payment by trade acceptance puts a good buyer on a basis nearest to that of a buyer for cash, and sellers seek the trade of such a buyer because it is nearly as "good as cash." When the sellers sign and send him the acceptance, they thus assume an equal obligation for his acceptance, which they would never do unless they felt the utmost certainty in his standing and integrity.

The acceptor's "Buymanship" says: "You give me a good discount for paying cash; why is it not worth something to you to have me sign the trade acceptance?" The answer is up to each firm, how to treat the matter, as elaborated in Chapter XII. The buyer who is a "conscientious objector" should get several more chances on the open-account plan, and, in the meantime, the seller may work all the fine points, through the sales department and salesmen, to win him over to the trade acceptance.

If the buyer is afraid of shortages, or that goods will not be up to sample, and the seller is not sufficiently entrenched with him so that he will take the seller's word as to quality and quantity of shipment (should the goods not arrive before he must sign up and return the trade acceptances), it will help get the acceptance to give him every possible assurance of the seller's ability and desire to give him satisfaction in every particular.

The buyer is often advised to hold the first trade acceptance (if shipment is to be made at once) until the arrival and checking of the goods. However, it can be explained in a nice way that this is rather a hardship, since trade ac-

ceptances are planned to be accepted and returned on receipt, and that the buyer is guaranteed fair dealings. He may not persist then in refusing to sign and return the acceptance promptly.

The buyer may have the idea that accepting a trade acceptance will "hurt him at the bank" and act as an adverse reflection on his credit. He can be shown that exactly the opposite would be the result in the well posted banker's mind, because he considers acceptances of the highest grade of financial instrument with which to settle credit accounts. Indeed, the highest banking authority—the Federal Reserve Board at Washington—thinks so highly of trade acceptances that it has authorized the Reserve Banks to use them as a basis for the country's currency. As stated, every buyer is usually a seller and looks at both sides and conditions. When he buys, he wants to be sure he can sell, and, incidentally, get his money before he pays for his credit bills, for that is his reason for not paying cash.

When Should the Buyer Pay?—It is a fundamental principle on which the trade acceptance is founded, that (at least theoretically), the time given by the seller to the buyer is for the understood purpose of allowing the buyer to turn over the goods and thus obtain the cash, through regular trade channels, with which to pay the trade acceptance and reimburse the seller for his goods. The seller, therefore, in average transactions, should give enough time on his trade acceptance to allow the buyer practically to carry out this plan for payment. But it should also be tacitly understood that in return for this privilege the buyer will be ready to meet the obligation when due.

When the buyer, for some adequate reason, needs to ask the seller for extra time on the purchase, he should do so when he buys, instead of arbitrarily taking it after the

account becomes due. If he is willing to set an exact date when he will pay by trade acceptance, he affords the seller a convenient method of carrying the account, through discounting it at the bank, if he desires to do so. The fair-minded seller possibly would rather grant special terms under some conditions than have the buyer not furnish him with bankable paper to help finance the credit, and later be obliged to give the extra time to the buyer.

By explanation the buyer may be made to appreciate fully that credit is a very delicate commodity and the easiest way to preserve it is to meet obligations when due, and that arrangements beforehand, not excuses afterwards, are by long odds the best for the buyer, as well as for the seller.

Buyer Doesn't Like "Drafts."—The buyer "doesn't accept drafts." Small business men and those who are not used to exact business transactions seem to have a strong objection to accepting a shipment with "draft attached to bill of lading" or to be drawn upon by those to whom they owe money. This is probably brought about by the fact that the old "sight drafts" have been, in the past, sometimes put to usages which might reflect upon the debtor's credit standing, such as drawing a sight draft for overdue accounts, etc.

One seller advises any buyer who makes the above objection that the trade acceptance is "neither a dun nor a draft." This is true in the generally accepted understanding of the term "draft" on the buyer for immediate payment. A bank never sees the trade acceptance unless the buyer has voluntarily "accepted" for a certain day in the future, according to understood terms, and has voluntarily mailed it back to the seller. It, therefore, should not be confounded by the buyer with the customary "draft," for, if the Federal Reserve Board in defining it had classed it with the usual draft of commerce, it would

have been called by that name and not especially designated in attributes and benefits in a class by itself as the King of Commercial Papers.

Final Attitude of Buyer.—Therefore, in summing up the objections of the buyer to signing trade acceptances, none seem to be so fundamental that they cannot be fairly met. There are two attitudes that a buyer may take and which only the *policy* of the firm putting out the acceptances can meet or overcome. These are that the buyer flatly refuses to accept unless *forced* to do so, or unless he is given an inducement in extra time or discount which will persuade him to accept. The arguments for and against meeting this attitude are discussed at length in other chapters of this volume, as they involve a question of policy of the house putting out the acceptance.

CHAPTER XXVI

MAKING CLEAR THE ADVANTAGES OF TRADE ACCEPTANCES TO THE BUYER[1]

Attractions of the Trade Acceptance.—The name "trade acceptance" seems to have a great attraction for the business world. Since it was adopted by the Federal Reserve Board in its ruling of July, 1915, it has seemed to appeal to many business men of the country, from the banker, manufacturer, jobber, retailer, and even to the consumer.

It is well that this new credit help has such a democratic and attractive name, because it is, above all things, a democratic instrument of business, since it will, in its field, benefit all alike and may be used by all alike. Large businesses and small equally find it a convenience. It has been introduced in the "Nut House" of Seattle (which started by roasting peanuts in a pan over the kitchen fire) as well as in the great electrical manufacturing company of "New York and everywhere." The same democratic methods and standard forms to put the acceptance in use with its customers are possible, no matter what the character or size of a business which uses credit.

But happier still for the assured success of the trade acceptance is, not only its general adoption for "big" and "little" business, but its "acceptance" by great and small houses alike. In talking with various companies which

[1] The substance of this chapter has been found to furnish a firm wishing to interest its customers in settlement by trade acceptance with sufficient explanatory material presented in a manner to appeal to the average buyer.

employ this plan, they all tell, with equal pride, that they have had single trade acceptances from their customers ranging from $3.50 to $18,000. This means much for this business movement, for it puts the small credit buyer upon exactly the same basis as to terms as the greatest credit buyer.

Indeed, the indications are that the careful credit buyer who pays his bills promptly with trade acceptances is favorably compared with the cash buyer and shares in the general benefits that all business will receive when credit business is put on a liquid and nearly "as good as cash" basis, which desirable goal the trade acceptance greatly helps to accomplish. It is becoming apparent that the credit buyer who refuses to accept places himself in a class one step lower than the firm that "accepts."

The trade acceptance, although a "wonder worker" in business, should not be expected to be a "miracle worker." It can do wonders for the credit business and for the credit buyer and seller. But there are some benefits it cannot bestow. It cannot make the "bad" account "good," though it can make *all good accounts* approximate cash in the bank. This great metamorphosis of the billions of dollars of "frozen" merchandise credits of the United States will put both credit buyers and sellers in a position that should redound to their benefit as no one other single reform in a bad situation has done during many decades.

Credit buyers should *talk* the trade acceptance; *use* the trade acceptance; and *accept* the trade acceptance. He has come to stay, this kindly big brother in the credit family, and you will get most benefit from his help by at once taking him by the hand and welcoming him to a full fellowship in American business.

How to Know This Business Booster.—How can the business man recognize this latest arrival in the credit

household? What are its earmarks and what are some of its characteristics?

In the case of the trade acceptance "clothes don't make the man," for you will find the trade acceptance coming to you in many varying dresses and forms. Some signs you can't mistake and the first of these will be its "name-plate"—always there—"Trade Acceptance." Another will be the wording, somewhere in its body, "The obligation of the acceptor (buyer) hereof arises out of the purchase of goods from the drawer (seller)." "By that you shall know it," for this wording alone, suggested by the Federal Reserve Board, stamps it for what it is and must be—the highest grade of commercial paper arising from the current buying and selling of merchandise on credit.

It is so highly regarded by the Federal Reserve Board that the circular defining it says: "It is a special class of paper for which the Board will authorize a somewhat lower rate of discount than for other commercial paper." The law goes even further, and allows banks to loan on trade acceptances almost any amount that the credit of the borrower warrants. The Reserve Banks may issue Government currency based upon the trade acceptance.

No other method of handling credit transactions has received such support and consideration; and this will always distinguish it from the payment of bills by the much abused and shunned "single-name note" and "sight draft," which can be used all the way from the payment of an overdue account to the borrowing of money for any purpose from fixed capital to pay salaries, or even for purposes almost wholly foreign to business' proper sphere.

That is the great advantage of having the trade acceptance in a class by itself and in such a high class that it can never be confounded with its sometimes "shady," credit-paying relations, by either banker, manufacturer, jobber, or merchant.

It is a first cousin to the check, but so far above it in the business world that it looks with tolerance on its more generally known relation. In Canada and Europe the check is so out of fashion for paying up credits that the big houses there hardly receive one a month for such a purpose.

What This "Only Complete Credit Instrument" Looks Like.—Look at the Standard Forms of trade acceptance, shown in Chapter II, and the explanation attached to it and you will see its simplicity and understand its many uses. Why use several papers and operations when one will do the same work better and cheaper?

The Standard Form trade acceptance is a complete instrument for a credit transaction from the seller to the buyer. From the time the receipt of the invoice is acknowledged by the buyer's signature on the acceptance when accepting, and while it passes through the seller and his bank and the buyer's bank and until it is paid by the latter, the buyer has a complete receipt for payment covering the specific charges noted on the invoice. This acknowledgment, bearing the legal, official signature of the seller and the notation of the banks that it has been paid in due form, constitutes the most complete acknowledgment of payment that the buyer can receive. The buyer may also have in his possession at all times a Standard Form carbon copy duplicate of the original acceptance, in case he requires it for reference or record of the details of the transaction for which he has paid by the acceptance.

When it becomes apparent to the buyer that he has before him in the duplicate the date or number of invoices settled for; due date when the trade acceptance will be presented to his bank, which will pay the amount of it on the buyer's "accepting" signature (without bothering the buyer any more than it would on his check); the net amount (less discounts, deductions for freight, etc.,

all figured off for him); and his record of the name of his bank where payable, it begins to be plain to him that, since by the simple signing of his name and designation of "place of payment," he can accomplish all this and have a record thereof, he had better get the "acceptance habit" without delay.

The Times Urge Short Cuts.—While the "boys" were away and the "girls" were doubly busy, it behooved us to take advantage of every short cut or improvement in detail and method of business operation for present as well as future advantage. It would now seem shortsighted to turn back the hands of the clock of progress.

There is no doubt that the trade acceptance will prove a useful short cut to the buyer as well as to the seller, and a buyer will be gratified to know that the methods of the house he deals with are up-to-date and economical, for the simple and selfish reason that he can get the best prices and service from the *seller* only if the latter employs every efficient means to cut the cost of production and handling. The moral is that the buyer should deal with the seller who employs trade acceptances.

Are the Old Credit Customs "Good Enough"?—The American business man should remember that he is now or will soon be in the class of the world business man. Our isolation is crumbling away, and we must think and use world methods to succeed.

England does safely five times as much credit business as the United States of America on an equal amount of invested capital (as stated by a Federal Reserve Bank officer). What can the reason be? Since it has nothing to do with money, it must be that her credit system is five times as effective as ours. Is not that worth looking into? From careful analysis it appears that this is largely due to the system of "acceptance" credits in use in England for many years.

Will America long be a "trailer"?

No business man should cling to the "old system" when there has been clearly demonstrated to him a better one which he can easily adopt.

What the Credit Men's Association Says.—Besides the bankers, we have a class of men, close students of credit, who are doing highly effective work to bring the buyer and seller closer together. These are the credit men who, to a man, indorse the use of the trade acceptance by both buyer and seller, because it furnishes, without loss to either party, a superior instrument to settle credits. It will also allow a legitimate extension of credits to a considerable degree, which expansion is fully warranted by the safety and economy with which business is done in foreign countries and on a much greater ratio of credit to investment.

Helps the Smaller Merchant Most.—Although the larger buyers seem to have considered most actively the advantages of the trade-acceptance plan, it is probable that the smaller buyer is the one who should benefit to the greatest degree. When a seller knows he can get payment from the small buyer at once in the form of an instrument which, under proper conditions, the banks will "take for cash," he certainly can no longer justify his desire to unduly favor the big buyer who can discount his bills, no matter what the size.

Don't misunderstand; large and small merchants should pay cash and get their discount at all convenient opportunities, but, the trade acceptance being simply a credit instrument, it is fortunate that on necessary credit purchases it will tend to equalize the desire of the seller to make credit sales with his desire to make cash sales.

Every buyer should let the seller know he "accepts," in order to get on this "preferred" list over the old-fashioned buyer who is too obtuse to learn, or is so fixed in the "slow-pay" class that he will not get out of it, no mat-

ter how well he knows that the mercantile agencies and credit and ledger-exchange bureaus have him listed as "slow pay" or "will not accept," and hence not in the class to whom the most desirable bargains will be offered.

Pick Your Class and Get All Benefits.—When you decide to "accept," and the opportunity will come to you as surely and without question as one age follows another, "do it out loud." Let the sellers know you are in the "gilt-edge credit class" and want all the *benefits* they can give you in return. A business man spoke of a new class as having expert "buymanship" in contradistinction to salesmanship. He said both buyer and seller must be experts, and the buyer who overlooks the benefits to be derived from paying by trade acceptance is not in the advanced class on "buymanship."

You ask the seller for credit and would be disappointed and even angry if it were not freely given you. Suppose the seller *asks you for credit,* will you take what you will not give? Ninety-five per cent "No"! The average business man is fair and will give as well as take, when it is put squarely up to hm. The day of the "over-clever" or "sharp" business man is passing. Such principles as "one price to all" and "Satisfaction or your money back" are signs of the times, are solid foundations to build upon, and are growing in use.

Suppose a buyer (or, for that matter, 100 buyers acting separately, but whose effect would be as a unit) wants to buy a big order from a seller who has not the goods and who hesitates or finds it unwise to put cash into their production and put them out to the buyer on "time." But now suppose that the cash buyer says to the seller: "I'll give you spot cash on delivery and accept the goods now, subject to delivery, as per specification." This would enable the seller to go ahead and buy, or make the goods, knowing he had a market and cash waiting for them on

delivery. As you know, that is what many big cash buyers do; but credit buyers have not the same opportunity to "put it up to the seller."

How Can the Credit Buyer Practically Give the Seller "Cash on Delivery"?—The responsible credit buyer has merely to realize that the same opportunity is open to him as to the cash buyer, if he offers the trade acceptance to the seller, who can then go ahead feeling sure of getting the cash from his bank instead of asking the buyer for it. The beauty of the trade acceptance is that it allows the bank to be banker, instead of forcing the seller to act as the buyer's banker; it puts *you* in the preferred class of buyers, and yet does not oblige you to pay for the goods one day before the regular terms on "open account." All who "accept" can get into the "preferred" class of buyers. Where do you stand?

Why Pay for Money Differently Than for Merchandise?—A Western manufacturer said to a customer of his: "Did you ever go to your banker and say, 'Send me up $5,000 in cash and charge it to me on open account'?"

The customer laughed and said, "No; I'm not as green as that. I'd sign and give him my check, or my note; any one would know that much."

Yet you would say to the manufacturer or jobber what you would not say to the banker, and you would not do for either of them what you do as a matter of course for the banker. Why? "It's the custom," you say.

"It's the Custom."—Ah, that's it! It's so the world over, and in almost all matters of life that "we do as others do," and if we were doing business in Europe or in our neighboring country, the Dominion of Canada, we would as a matter of course "accept" (90 per cent of all merchants there do, or give a note) for our purchases as readily as we would give an acknowledgment to our banker in exchange for cash.

There is no shadow of doubt that in the comparatively near future American buyers will be expected, as a matter of custom, to "accept." What buyer wants to be left behind in the procession and be *forced,* at last, to join with those who are giving and getting benefits from which his backwardness would exclude him? When you get the trade acceptance habit you will find ways to *pass it on. You will get acceptances yourself* from your customers, or will devise means to handle and keep their credits to you in the "liquid" and up-to-date class.

Big Movements Bring Benefits to All.—Last, but not least, it is easily proved that every general forward movement for economy and effectiveness helps all along the line, and it is, therefore, an uncontrovertible fact that the benefits to credit business by the general adoption of trade acceptances in American business will not only help the Government in its financing, but the financing of business in general, every penny of which returns to the source, in one way or another, through *benefits to the buyer.*

INDEX TO RULINGS AND OPINIONS OF COUNSEL OF THE FEDERAL RESERVE BOARD

References are to ruling or opinion numbers in Chapters XVIII and XIX

INDEX

THE RULINGS AND OPINIONS OF COUNSEL OF THE FEDERAL RESERVE BOARD IN CHAPTERS XVIII AND XIX ARE SEPARATELY INDEXED

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